FINANCIAL TIMES

World Business Newspaper

FRIDAY JULY 19 1996

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TOMORROW'S **Weekend FT**
The race for integration

Russian bank chief attacks rivals over talk of bankruptcy

Russia's fifth largest bank, Inkombank, accused "vengeful" government officials and "dishonest" rivals of provoking rumours that the institution was on the brink of bankruptcy, prompting withdrawals of Rbs160bn ($32m) since the beginning of the month. Central bank officials and senior members of the government in Moscow have publicly vouched for Inkombank's solidity over the past few days. Page 14

BASF, the German chemicals group, is to close four plants at its main production site in Ludwigshafen, Germany, with the loss of 900 jobs. The move was prompted by the decline of the European textiles and leather markets. Page 15

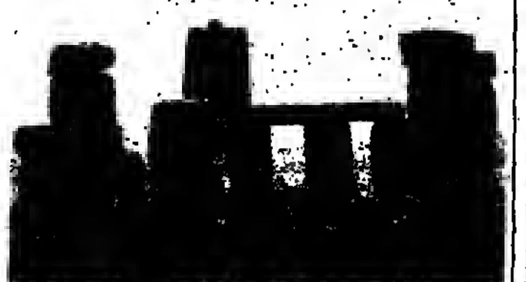
EU set for action on anti-Cuba law: European Union ambassadors moved to ensure they could introduce rapid retaliatory action against the US if it passed legislation which would penalise foreign companies which "traffick" in confiscated assets in Cuba. Page 6

Russian PM moves to end power crisis: Russian prime minister Victor Chernomyrdin ordered an emergency shipment of 10,000 tonnes of fuel to the far east to end an energy crisis which has hit hospitals, schools and local government offices. Page 3

AT&T shares hit by warning: Shares in AT&T, the largest US telephone company, fell 5 per cent after its chief financial officer Rick Miller warned that intense competition in the deregulated US market would result in less growth in its domestic consumer business than last year. Page 15

US trade deficit worsens: The US trade deficit increased for the third consecutive month, rising by more than 13 per cent to $10.9bn in May. Page 6

Investors sought for Stonehenge plan



Stonehenge (above), the most famous ancient monument in the UK, is to get a new lease of life under plans by English Heritage, the government-financed organisation which administers the 4,000-year-old ring of stones. It is seeking £52.5m ($80.7m) from private companies to contribute towards the construction of a new visitor centre on the site. Page 14

HK exchange chief to resign: Hong Kong Stock Exchange chief executive Paul Chow is to resign at the end of January. Page 7

Gold price lifts Anglo American: Higher gold prices helped Anglo American's gold and uranium division report a 43 per cent rise in profits to R323m ($73.6m) for the quarter to the end of June. Page 18

Japanese trade surplus down 40%: Japan's trade surplus recorded the biggest half-yearly drop in 16 years, falling by 40 per cent to Y3,111bn ($28.6bn) in the first six months of this year. Page 7

Banacci, Mexico's largest financial group, may sell part of its brokerage firm, Accival, to complete a $1bn recapitalisation for its banking arm, Banamex. Page 16

World Bank warns Morocco, Tunisia: The World Bank has warned Morocco and Tunisia that they are falling behind other developing countries, a week after it called on them to accelerate their integration with Europe. Page 4

Doubt over South Pacific concessions: Australian foreign minister Alexander Downer warned that concessions in the South Pacific Regional Trade and Economic Agreement may not continue indefinitely. Page 5

'Dudayev still alive' claim: Rebel Chechen field commander Salman Raduyev, reported killed in a battle against Russian troops in January, reappeared in Chechnya claiming that separatist leader Dzhokhar Dudayev was also alive, though in a critical condition.

Yangtze flood threat: China has mobilised more than 1m people to reinforce the banks of the Yangtze after the country's longest river swelled to its third highest level on record.

■ STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,423.12	(+46.24)
NASDAQ Composite	1,181.87	(+15.22)
Europe and Far East		
CAC40	2,097.25	(+12.15)
DAX	2,506.22	(+9.03)
FT-SE 100	3,693.4	(+35.2)
Nikkei	21,566.42	(+153.54)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.238%
Long Bond	98⅝%
Yield	6.926%

■ OTHER RATES

UK: 3-mo Interbank	5⅞%	(same)
UK: 10 yr Gilt	97⅞	(96⅞)
France: 10 yr OAT	106.05	(105.80)
Germany: 10 yr Bund	98.80	(98.54)
Japan: 10 yr JGB	97.3669	(97.3118)

■ NORTH SEA OIL (Argus)

Brent Dated	$19.975	(19.93)

■ GOLD

New York: Comex		
(Aug)	$384.6	(384.2)
London:		
close	$383.7	(383.55)

■ DOLLAR

New York: lunchtime		
£	1.546	
DM	1.48775	
FFr	5.0415	
SFr	1.2155	
Y	108.25	
London:		
£	1.5455	(1.5485)
DM	1.4917	(1.4865)
FFr	5.0546	(5.0359)
SFr	1.2191	(1.2145)
Y	108.895	(108.755)

■ STERLING

DM	2.3053	(2.3018)
Tokyo close:	Y 108.85	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux.	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	SK65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc80	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.60	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£55.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 6.50	Tunisia	Din1.750
France	FFr12.00	Kuwait	Fils550	Portugal (mainland)	Esc240	Turkey	L60,000
		Lebanon	LL3,000			UAE	Dh12.00

Anti-terror and safety teams probe TWA crash

Clinton says no evidence yet that a bomb caused disaster

By Jurek Martin in Washington and Michael Skapinker in London

Safety and anti-terrorism teams began parallel investigations yesterday into Wednesday night's crash of a TWA Boeing 747 off Long Island, in which 228 people died.

A National Transportation Safety Board team arrived at the scene early yesterday, while the FBI opened its own investigation, assisted by anti-terrorist specialists from the New York City police department. President Bill Clinton said yesterday there was so far no evidence a terrorist bomb had caused the crash of Flight 800, which had been bound for Charles de Gaulle airport in Paris.

The aircraft appeared to break into two and burst into flames before crashing into the Atlantic Ocean 70 miles east of New York City. Rescuers found no survivors. Although comparisons were prompted with the explosion which destroyed a Pan-American aircraft above Lockerbie, Scotland, in 1988, Mr Clinton warned the American people not to "jump to conclusions" and blame international terrorists for the TWA disaster.

Recalling the initial speculation of foreign terrorist involvement in last year's bombing of a federal building in Oklahoma City, he said "we have no evidence on this flight that would indicate the cause of the accident".

Ms Janet Reno, the attorney general, confirmed that the FBI and state law enforcement agencies were investigating at least two telephone calls claiming responsibility. Both, she said, were received after the crash had become public knowledge. Mr Clinton said: "Sometimes such calls are accurate and sometimes they are attempting to ride along on a tragedy." Neither Mr Clinton nor Ms Reno would comment on the nature of the messages.

The calamity came just 48 hours before tonight's formal opening of the Olympic Games in Atlanta, Georgia. The city was already under tight security against foreign and domestic terrorism. This was tightened yesterday but officials reported no new special alerts.

The US has been on heightened alert since the truck bombing of the apartment complex housing American servicemen near Dhahran, Saudi Arabia, last month.

The crash is likely to further damage passenger confidence, shaken in May by the crash of a ValuJet DC-9 in Florida, which killed 110 people. Initial

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Setback for TWA, Page 6

UN forum to set limits over global warming

By Frances Williams in Geneva

The world's governments yesterday agreed to set tough, legally binding targets on greenhouse gas emissions beyond 2000 in spite of strong resistance from several leading fossil fuel producers.

A declaration by environment ministers at the end of a two-week meeting of the United Nations climate change convention marks the first time countries have committed themselves to negotiating mandatory targets for curbing emissions of gases, mainly carbon dioxide, that are warming the earth's atmosphere.

Existing targets, which commit industrialised countries to returning to 1990 levels of greenhouse gas emissions by 2000, are voluntary and, on present trends, will be missed almost universally.

Conference observers said a US announcement on Wednesday in support of legally binding targets was pivotal. Mr John Gummer, UK environment secretary, was also apparently influential in closed-door negotiations on Wednesday night in persuading the rest of the European Union to support Washington's position.

The declaration calls for negotiators to agree "quantified legally binding objectives for emission limitations and significant overall reductions within specified timeframes". These would be endorsed at another conference to be held in Kyoto, Japan, in December 1997.

Australia and New Zealand yesterday said they had reservations about the "legally binding" provision, but could support the rest of the declaration. Fourteen other countries, among them Russia and leading oil exporters including Saudi Arabia, Nigeria and Venezuela, objected to the declaration as a whole, saying it misrepresented the state of the scientific debate on climate change.

Throughout the conference, with the vigorous backing of industry and energy lobbies from the US and Australia, the energy producers argued against accepting the latest report from the Intergovernmental Panel on Climate Change as the basis for action on global warming.

The IPCC report, the work of more than 1,000 scientists, concluded for the first time that human activity, mostly through the burning of fossil fuels, is causing global warming. This had potentially damaging consequences, including a greater risk of natural disasters, famine and disease.

The ministerial declaration describes the IPCC report as "comprehensive and authoritative" and a basis for "urgently strengthening action" to curtail "dangerous" interference with the climate system.

Mr Michael Zammit Cutajar, executive secretary of the climate change convention, yesterday said the declaration had the overwhelming support of the 150 governments attending the conference. "It is a major step forward", he said.

Environmental groups also welcomed the declaration but expressed disappointment that the conference had not decided what the mandatory targets should actually be.

Egyptian president Hosni Mubarak (right) greeting Benjamin Netanyahu yesterday at the presidential palace in Cairo where the new Israeli prime minister said the pair had "cleared the air" over the Middle East peace process Report, Page 12 Picture: Reuter

Fed chief helps spur US share prices

By Michael Prowse in Washington

US share and bond prices rose strongly yesterday in response to reassuring comments on inflation and growth by Mr Alan Greenspan, the Federal Reserve chairman.

Mr Greenspan told a Senate committee the outlook for inflation was "more favourable", with a projected deceleration of economic growth starting in the second half of this year and extending through 1997.

His remarks suggested the Fed was unlikely to signal more than a marginal quarter-point increase in interest rates at its policy meeting next month, and might do nothing if economic data suggested little upward pressure on wages and prices.

After the turmoil of recent days it was welcome news for Wall Street. By early afternoon, the Dow Jones Industrial Average had risen 81.01 points to 5,457.89. The benchmark Treasury 30-year bond rose more than a point, pushing the yield down to 6.92 per cent.

Mr Greenspan said the Fed stood ready to raise interest rates should economic figures "persuasively suggest an oncoming intensification of inflation pressures that would jeopardise the durability of the economic expansion".

But he released economic forecasts suggesting the Fed believes the risk of significantly higher inflation is not great. The forecasts show a decline in economic growth next year to 1.75-2.25 per cent against 2.5-2.75 per cent this year. Consumer prices are expected to rise 3-3.25 per cent this year, reflecting a temporary surge in energy prices. But inflation is expected to decline to 2.75-3.00 per cent next year as the economy slows. "There was

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Investor pulls out of Total over fears of Burma boycott

By Ted Bardacke in Kanbauk, Burma, and David Owen in Paris

A leading Danish pension fund has sold its $10.45m holding in Total, the French energy group, because of fears that Total's investment in Burma might lead to an international boycott of the company's products.

The move hit Total shares in early trading on the Paris stock exchange, although they recovered to close down just FFr1.60, or 0.4 per cent, at FFr359.40.

This compared with a 0.8 per cent improvement in the shares of Elf Aquitaine, its rival, and a gain of 0.6 per cent for the benchmark CAC-40 index.

Kommunernes Pensionsforsikring, one of Denmark's leading pension funds, said it had sold all its Total shares last Monday.

This month breweries Carlsberg of Denmark and Heineken of the Netherlands both announced they were ending business dealings in Burma, as consumer pressure on companies doing business in Burma, largely confined to the US, has spread to Europe.

Mr Niels Hougaard, the pension fund's chief of investments, said the decision had been taken in anticipation of "a possible international boycott of Total due to its engagement in Burma and because of a televised report showing the intolerable living conditions in that country".

Domestic pressure against the Burmese military regime has been mounting in Denmark since the death last month of the country's honorary consul in a Burmese jail.

The consul, Mr James "Leo" Nichols, a financial backer and friend of Burmese democracy leader and Nobel Peace Prize winner Ms Aung San Suu Kyi, was serving a three-year sentence for possessing telephones and a fax machine without a permit.

Total is developing Burma's largest foreign investment project to date – a $1.2bn venture to produce natural gas for export to Thailand. The company has said it has no intention of pulling out and that the project is in the long-term interest of the Burmese population.

Total's pipeline project, a joint venture with Unocal of the US, PTT of Thailand and Burma's state-owned Myanmar Oil and Gas Enterprise, has been harshly criticised by activists in western countries. The project involves selling 525m cubic feet of offshore natural gas to Thailand via a pipeline across an area of Burma that has been the site of armed ethnic insurgency.

Claims by critics that forced labour is being used on the project were rejected by Total officials during a tour of the project site on Tuesday.

Total last night said in a statement it was "contrary to fact" to suggest that it used "forced labour or child labour of any kind, either directly or indirectly".

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Le Floch-Prigent's replacement as chairman of French rail company almost certain

SNCF chief loses appeal against detention

By David Owen in Paris

A Paris court yesterday rejected an appeal by Mr Loïk Le Floch-Prigent against his detention in a south Paris jail, making it virtually certain he will soon be replaced as head of SNCF, the state-owned French railway company.

Government officials were last night waiting to see whether Mr Le Floch-Prigent, 52, would resign – a move that would speed the appointment of his successor. If he decided not to quit, the government would probably take steps to have him removed.

In either case his successor is expected to be named by the end of the month. Attention was last night focusing on Mr Frédéric D'Allest, managing director of Lagardère Group, the missiles-to-magazines conglomerate.

Mr Le Floch-Prigent is being held in connection with an inquiry into investments by Elf Aquitaine, the French oil giant, while he was chairman between 1989 and 1993. He has been placed under formal investigation by Ms Eva Joly, an investigating magistrate, for alleged misuse of corporate assets, abuse of confidence, spreading false information and false accounting.

He is the latest in a line of French business leaders placed under formal investigation since an anti-corruption crackdown started in France in 1993.

The probable change of chairman is likely to result initially in a slowing of the pace of change at SNCF, which the government has earmarked for a wide-ranging restructuring.

Mr Le Floch-Prigent's difficulties appear already to have forced delays to important projects. Interviewed shortly before he was detained earlier this month, he spoke of the possibility of announcing proposals for SNCF to exploit its extensive telecommunications network during July. The company acknowledges this is now unlikely to come before September.

Mr Olivier Metzner, Mr Le Floch-Prigent's lawyer, yesterday said he and his client were continuing to fight. He was "very disappointed" by the court's decision.

Mr Le Floch-Prigent was appointed SNCF head in December after the wave of public-sector strikes that paralysed France in response to the government's controversial social security reforms. He has since won plaudits for his handling of the loss-making institution's traditionally volatile trade unions.

Mr Le Floch-Prigent had been associated with the political left, so it came as a surprise when Mr Chirac insisted on his nomination for the SNCF chairmanship.

His flamboyant management style won him many supporters but was also felt by some to have tilted into high-handedness on occasions.

Asked in an interview within days of his detention whether SNCF's freight operations could realistically reach break even, he responded by arguing it was "in the interest of Europeans for the powers-that-be to ensure that international freight transport is by rail".

While his near certain departure from the SNCF chairmanship may come as a shock, it is almost certainly in the company's best interests.

Had he been released yesterday – which would have allowed him to stay in his post – he would have been at best preoccupied and at worst a lame duck.

One side-effect of Mr Le Floch-Prigent's likely departure may be to increase calls for reform of the French legal system. He is still entitled to a presumption of innocence – putting people *en examen*, in the jargon, does not even necessitate bringing formal charges against them, although that can be the next stage.

In his Bastille Day interview last week, President Chirac expressed concern at the more than 20,000 people held in detention pending trial in France.

"You could say today that as soon as one is *en examen*, one is considered guilty, whereas the foundation of our law is the presumption of innocence," the president said.

Le Floch-Prigent: won plaudits for his handling of unions

German exporters tap into E Europe

By Andrew Fisher in Frankfurt

German exports to eastern Europe have risen sharply since 1993 and now exceed those to the US, and more of its direct investments go to the region than to south-east Asia, according to the Bundesbank.

"For German exporters, central and eastern Europe has become one of the most important growth markets in the last two years," the German central bank said in its monthly report yesterday.

Germany and eastern Europe stood to benefit from "a huge growth potential" in their trade and business relations as economic reforms spread beyond Poland, the Czech Republic and Hungary.

But the bank pointed out that German investments in eastern Europe – currently running at nearly 10 per cent of the country's direct investments – aimed at tapping new sales markets, and low-cost labour also meant greater competition for Germany. Its foreign trade surplus with the region fell from DM8.2bn ($5.4bn) in 1993 to DM5.2bn last year, much of the decline reflecting increased imports from production facilities set up or acquired by German companies.

The Bundesbank said the export successes of the reform countries were "considerable" despite last year's economic slowdown in some west European markets and protectionist EU rules which hindered agricultural and textile imports.

On the other hand, eastern European countries, especially those near Germany, benefited from increasing efforts by German companies to use local components suppliers to cut production costs. German imports from the region rose by 44 per cent in two years to DM58bn in 1995.

East Europe's share of total German imports rose from 7 to 9 per cent. However, oil and gas purchases from Russia – totalling DM7.5bn last year – continued to weigh heavily in Germany's import bill.

On the export side, Germany recorded a 29 per cent increase in the past two years to DM60bn. Russia remained the biggest market in the region, but German exports there fell by 10 per cent to DM10bn because of political and economic uncertainty.

German sales to both Poland and Hungary were bigger than those to Russia last year, although the latter's size and potential means it is still an important trading partner. Exports to eastern Europe now account for 8 per cent of the German total.

After Poland, the Czech Republic and Hungary, the Bundesbank singled out the economic reforming efforts of the Baltic states, Slovakia and Slovenia. Altogether, German direct investments in eastern Europe totalled DM4.2bn last year, against DM2.4bn in 1993. These were mostly concentrated in manufacturing – with Poland, Hungary and the Czech Republic receiving most of the inflow – but services and utilities also received more investment as privatisation increased.

Expectations that the Bundesbank will ease monetary policies further, possibly at next week's council meeting, were reinforced yesterday by an unexpected fall in the business climate index of the Ifo economic research institute, Andrew Fisher reports.

The index dropped 2 per cent from May to June in west Germany and 1.7 per cent in the east. Economists said this made it more likely the Bundesbank would lower the securities repurchase (repo) rate, unchanged at 3.30 per cent when the discount and lombard rates were cut in April.

Mr Hans Tietmeyer, president of the central bank, hinted strongly at such a move on Tuesday.

Goldman Sachs said the Ifo index's decline was "a reminder that economic recovery in Germany remained very fragile". A continued D-Mark rise could undermine business sentiment even further.

The Ifo data would "reinforce the bias of the Bundesbank towards a further monetary easing", it added.

Nikko Securities called the Ifo figures "the strongest evidence yet" to support its view that economic recovery would be disappointing and that interest rates would be cut again.

The Bundesbank has been cautious about the pace of recovery, saying yesterday that rising private consumption could "feed certain hopes" of an economic pick-up.

Ankara delays judicial changes

By John Barham in Ankara and Conner Middelmann in London

Turkey's new Islamist government backed down yesterday from a plan to move more than 1,200 judges and prosecutors to other jobs within the judiciary, after the media and Bar Association accused it of attempting to purge secularists.

Mr Şevket Kazan, justice minister, agreed to delay the changes until after the judiciary's holidays end in September.

Mr Nazmi Şarvan, a senior prosecutor, said: "We will not leave the country to these people. This is an operation to capture the judiciary. If they succeed, there is nothing they cannot do." Mr Şarvan, who is to be demoted under the proposals, led the prosecution in a case against a fundraiser for the ruling Refah party who was convicted this year of fraud.

Although the two-week-old coalition government led by Refah's Mr Necmettin Erbakan is steering a moderate path, this is its second *faux pas* in a week. On Monday financial markets plummeted after Refah's finance minister said he would cap interest payments on the government's local currency debt.

Yesterday, the Standard & Poor's credit rating agency, alarmed by Turkey's deteriorating fiscal situation, put its foreign debt on "CreditWatch with negative implications," suggesting the next rating move would be downwards.

Turkey's long-term foreign debt is currently rated B+ and its short-term debt is rated B–, both in sub-investment grade territory. A downgrade would increase financing costs in international capital markets.

S&P said that during the next few months – "and particularly in the autumn, when a high proportion of unrated local currency debt matures – Turkey would have a heightened vulnerability to political and economic stress".

The fiscal deficit and real interest rates had moved above 1995's improved, but still high, levels and "the probability of greater political and economic stress is magnified by the inherent weakness of the recently formed coalition [government]... as well as related ongoing financial market volatility," it said.

Paris needles partner with textiles subsidies

By Wolfgang Münchau in Frankfurt and David Owen in Paris

German textile producers have called on the European Commission to veto a French government aid plan worth FFr2bn ($385m) a year for the hard-pressed French textile, clothing and shoe industries.

In a fresh example of how subsidy proposals are causing tension between EU partners at a time of high unemployment, Gesamttextil, the German textile industry federation, claims the French plan could distort competition and drive numerous small German textile producers out of business.

The French proposals would reduce employers' social security charges for lower-paid workers in the textile, clothing and shoe industries, which – like their German counterparts – have been affected by cheap imports. In return, companies would commit themselves to maintaining jobs and to hiring more young people.

Mr Guido Glania, Gesamttextil's EU subsidies specialist, said the proposals would "lead to strong competitive distortions". The German government did not provide "sectoral subsidies and we don't ask for any". Many small and medium-sized textile companies were already facing a "critical" situation.

Mr Franck Borotra, the French industry minister, last week told the Tribune Desfossés business newspaper that France's aid to the textile industry was "not only legitimate, but profoundly legal".

He argued that the measures were not sectoral, but applied to all industries where at least 70 per cent of employees were on low salaries, defined as up to one and a half times the French minimum wage.

Scrutiny of the plan by Brussels is continuing in the wake of a meeting of experts last week, but no decision is expected before the month's end.

While the French industry ministry has refused to comment on last week's meeting, saying it was confidential, France is understood to have argued that the competitive position of the companies receiving the aid would not be improved. This is because they would be expected to implement reductions in the number of hours worked by their employees while maintaining salaries.

The present argument concerns only companies with more than 50 employees; France's proposals for companies employing fewer than 50 workers were cleared by Brussels in advance.

Heavy job losses have occurred in recent years as the French textile industry has switched from a labour-intensive to a capital-intensive business; in 1990, employment in textiles and clothing stood at 47 per cent of 1970 levels.

The Nord-Pas-de-Calais region in northern France has borne the brunt of these job losses.

The European Commission may next week approve the third FFr5bn ($971m) tranche of a FFr20bn package to Air France, the state-owned airline, Neil Buckley reports from Brussels. The aid was approved in 1994, but payment of the final instalment was subject to conditions connected with the airline's restructuring programme.

Approval of the final tranche was delayed by claims the money would be used to undercut competitors. Brussels is understood to be satisfied Air France is not acting anti-competitively.

However, Paris is believed to have undertaken to withhold FFr1bn of the remaining FFr5bn pending a final report on restructuring.

Brussels probe into Danish shipyards aid

By Neil Buckley in Brussels

The European Commission has launched an investigation into whether state aid paid to Danish shipyards between 1987 and 1993 may have breached EU aid ceilings.

It is examining 65 cases where it says it may have been misinformed of the prices for construction of vessels. In each case shipyards created a "daughter" company, which was the recipient of the state aid and to which the ships were sold.

The daughter company then sold the ships on to the final buyer. The Commission fears that state aid may have allowed the ships to be sold by the daughter company to the eventual buyer for a cheaper price than that for which they were sold to the daughter company by the shipyard – the price quoted to the EU authorities. That means the aid would have represented a higher percentage of the final selling price than would be suggested by the prices quoted to the Commission.

Competition officials refused to say which, or how many, shipyards were involved in the investigation. But the probe will be an embarrassment to Denmark, which has been critical of state aid payments to German shipyards and has boasted about its own shipyards' ability to operate without state aid in recent years.

The investigation is likely to last until late this year. If it finds that aid breached EU rules, the Commission could demand that the excess amounts are repaid.

The Danish government is already conducting its own investigation into the aid payments, and commissioned Coopers & Lybrand, the accountants, to produce a report, which criticised different Danish governments for subsidising the sector to the tune of DKr4bn ($694m) between 1986 and 1995.

The Commission has just closed a probe into state aid paid by the French government to support the restructuring programme at Compagnie Générale Maritime, the state-owned shipping company.

It approved an aid package of FFr3.32bn ($644m) – of which FFr2.3bn has already been paid – on condition the company was privatised by next February, did not expand before then, did not use the aid to cover operating losses, and received no further aid.

EUROPEAN NEWS DIGEST

Cannes mayor extortion probe

The mayor of the French Riviera resort of Cannes was yesterday questioned by police investigating an alleged attempt to extort money from London Clubs, the UK casino operator.

Mr Michel Mouillot, a member of the centre-right Union for French Democracy and vice-president of the regional council, was arrested at his holiday home on Wednesday night. Two of his closest aides were also held and police searched offices at the town hall in Cannes.

Justice sources said Mr Mouillot was being questioned about an alleged attempt to extort cash from London Clubs in return for permission to install one-armed bandits at a casino it operates at the luxury beachfront Carlton Hotel.

The Carlton Casino Club opened in 1989 and had a turnover of FFr 67.5m ($13.5m) last year from 15 gaming tables. But its turnover was down 40 per cent from the previous year, partly because it was one of the few casinos in Cannes which did not have gambling machines. In January an appeal court upheld an 18-month suspended jail sentence, a FFr200,000 fine and a five-year ban on holding office on Mr Mouillot for receiving a fictitious salary from a businessman in a political funding scandal. Police in London have arrested another man in connection with the inquiry and further arrests in France are expected. *John Mason, London*

Russia toughens its visa laws

Foreigners who have not paid their local taxes may be barred from leaving Russia under a new law on travel into and out of the country passed by the parliament yesterday.

The provision is a sign of the toughening Russia's attitude towards outsiders and part of the government's attempt to boost falling levels of tax collection.

But it is likely to create further unease in the foreign business community, which has already suffered a slight hardening of government attitudes. Over the past few months several western businessmen have been expelled from the country and a few have been arrested on charges of evading Russia's onerous and sometimes prejudicially levied taxes.

The new legislation also requires foreign visitors planning to stay for more than three months to produce an HIV test certificate in order to obtain a visa. In a tit-for-tat response to the often humiliating tests Russians must pass in order to be allowed to travel to the west, the law demands that visa applicants prove they have enough money to fund a visit to Russia. *Chrystia Freeland, Moscow*

Swedes rule out fiscal measures

Mr Erik Asbrink, Sweden's finance minister, yesterday ruled out fiscal measures to stimulate the economy but conceded the country's economic revival would take "longer than expected" amid continued sagging levels of private consumption.

Mr Asbrink blamed weakness in west European export markets and said there was no indication when an improvement might occur. He said the government's forecast of 1.4 per cent GDP growth and a 0.8 per cent increase in private consumption this year might be downgraded in September's budget.

However, he said Sweden's budget deficit was decreasing faster than expected, chiefly because of higher value added tax revenues this year. The deficit was likely to be below the 5.1 per cent forecast in the April financial bill. Mr Asbrink said Sweden was "en route to a stage where we can put more effort into growth and employment, without losing our grasp on stability". A key concern is the impact of the stronger krona on exports. *Greg McIvor, Stockholm*

Italy's producer prices decline

Italian producer prices recorded negative growth in May of minus 0.2 per cent, the first such fall since December 1991, according to Istat, the state statistics institute.

The main direct cause for the drop was the movement in newsprint and energy product prices, down 1.1 per cent and 1 per cent respectively. Producer prices have been decelerating since mid-1995 and the latest figures reflect the combination of a slow-down in economic activity, a cooling of raw material costs and the strengthening of the lira.

The same factors have been evident in wholesale prices, which fell 0.3 per cent in May and have also been behind the downward trend in consumer prices, currently running at an annualised 3.9 per cent. Last year the Bank of Italy was critical of businesses for pushing up producer prices and enjoying unnecessarily high margins. At the end of the first half of 1995 producer prices were growing at an annualised 9 per cent, almost double that of consumer prices. But since then this gap has been eliminated with producer prices increasing slower than consumer prices. *Robert Graham, Rome*

Lithuania to bail out large bank

The government of the Baltic state of Lithuania has decided to bail out the State Commercial Bank, one of the largest state-owned banks, to avert a new banking crisis. "The cabinet has decided to save the bank, it is not bankrupt," the government said.

The government said the cabinet approved a plan to recapitalise the bank with a 140m litas ($35m) bond and 10m litas from the budget, after press reports that the bank had suffered liquidity problems. The current 20m litas capital of the bank will be annulled. The country also has to find funds to restructure Innovation Bank, the commercial bank whose closure in December sparked a banking crisis. It is to be nationalised and recapitalised before being sold back into the private sector. *Reuter, Vilnius*

Albania names local polls date

Local elections will be held in Albania in late October, President Sali Berisha said yesterday. The decision was welcomed by the opposition Socialist party, which, along with other opposition parties, withdrew from this year's general election after alleging government violence and manipulation. Western observers have confirmed many of the claims.

Mr Berisha stressed that yesterday's decision was made with all parties who took part in the last local elections in 1992. "After meeting the other parties I can confirm there was consensus on the date of local elections," he said. But all parties have agreed to participate in the October poll: The Socialists said a fair local ballot could help restore Albania's tarnished image. *Reuter, Tirana*

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Payment system hurries the pace in debate on Emu

Payments systems, until only a few years ago, were widely considered to be best left, in the words of a senior European central banker, to "garage mechanics".

But the debate over the system which will handle payments in euros after the creation of the single European currency has moved out of the garage and into the political front parlour.

While doubts remain over which countries will end up joining, and even whether monetary union will take place at all, detailed technical work on the construction of the new payment system, known as Target, is already pre-empting some of the decisions that politicians had hoped to put off until later.

Long before the final decision is taken in 1998 on which countries will join Emu in its first phase, the relationship between the "ins" and "outs" could already be, to a great extent, fixed by technical rules on access to Target. A detailed technical paper is due out next month, in fact.

Target, which stands for Trans-European Automated Real-time Gross Settlement Express Transfer system, is designed as a communications link between the national payments systems of EU countries such as the UK's Chaps or Germany's EIL-ZV.

But the system is two things at once.

Its main purpose, according to the European Monetary Institute, is to provide the payment procedures the future European central bank will need to transmit its monetary policy decisions to the money markets.

As such it most closely concerns those countries which will join Emu – a point of view taken by banks in the countries most likely to belong to this club. "If Target is primarily a mechanism for the conduct of monetary policy, then it is clear that access to Target is reserved to the euro countries, by definition," said a senior French banker.

But Target's other objective is "the development of sound and efficient payments systems in Europe".

Target is a real-time gross settlement system, in which transfers are made instantaneously instead of being stored up and made in a bunch at the end of the day, as was traditionally done in most national systems.

These RTGS systems are favoured by the Bank for International Settlements, the club of central banks, as a means for reducing settlement risk in high-value payments between banks, such as foreign exchange trades.

In the $1,200bn-a-day foreign exchange market, banks can quickly build up such large exposures to one another that even a matter of hours between payment of the two sides of a deal can constitute an unacceptable risk.

Target is therefore of interest to central banks not only in countries such as the UK or Denmark, which seem unlikely to join Emu, at least in the first phase, but also in countries outside the Union, such as Switzerland, which has approached the EMI for talks on the issue.

"It rapidly ceases to be a payments systems issue and becomes a conflict between the supervisory and monetary sides of the central banks," says Mr Michael Lewis, a consultant with the Unisys information systems group, who claims to have coined the name Target while working at the Bank of England.

While monetary policy officials are anxious to control commercial banks' access through Target to liquidity from the central bank, bank supervisors are eager to extend as much as possible the use of real time settlement systems like Target, to reduce the risks run by the banks they supervise.

Behind the central bankers' debates, however, lies a straightforward issue of competitiveness.

If Target becomes the dominant channel for high-value payments in Europe, banks in countries outside Emu could be disadvantaged if they do not have access to the system on the same terms as their competitors.

At this point the debate could move from the implementation of monetary union to the application of the rules of the single European market, which forbid discrimination against any member country.

If, on the other hand, access to Target is too tightly limited, banks may bypass it and channel their payments through more traditional alternatives such as correspondent banks in euro countries or the existing private Ecu clearing system.

The EMI, meanwhile, finds itself stuck in the middle of an argument between "ins" and "outs". It can scarcely duck the debate over the access of British or Danish banks to Target. But it sees no need to invite further complications by encouraging the Swiss approach.

George Graham

Italian parties agree on constitution review

By Robert Graham in Rome

Italy's political parties yesterday agreed a compromise deal paving the way for the first big overhaul of the country's constitution since it was introduced in 1948.

A special commission formed from both houses of the Italian parliament is to be set up to carry out a constitotional review by June 30 1997. Given the broad scope of the changes expected, this could prove a tight timetable to follow.

The centre-left government and the rightwing opposition have been at loggerheads since the new parliament opened two months ago about how to proceed on the constitutional reform both promised in their electoral campaigns.

The government has favoured tackling the issue via a parliamentary commission or commissions.

The opposition objected because this tends to give the government majority too direct a control, and proposed instead a constituent assembly independent of parliament and less likely to be influenced by the centre-left.

On Wednesday, the centre-left Oliva Tree alliance proposed establishing two 30-member commissions, one each for the chamber of deputies and the senate. But after discussions between Mr Massimo D'Alema, the leader of the Party of the Democratic Left (PDS) – the dominant partner in the Olive Tree alliance – and Mr Silvio Berlusconi, the former prime minister and head of the rightwing opposition, this proposal was amended to a single bicameral commission.

This motion was put before parliament and the opposition abstained on the vote. The government's majority was assured yesterday wben Mr Fausto Bertinotti, the leader of Reconstructed Communism (RC), said his party would vote for the resolution.

RC, formed from the hard left of the old Communists, is not part of the Olive Tree alliance but provides parliamentary support for the government.

The commission's brief is very wide. It will look at the form of the state to see to what extent Italy should adopt a more federal system. It will examine the roles of tha two bouses of parliament, which currently replicate each other's functions to an unnecessary degree. The respective powers of the prime minister and head of state are also likely to be reviewed and changed.

The opposition, especially the rightwing National Alliance of Mr Gianfranco Fini, has been pressing for a move towards a semi-presidential system, close to that of France. The prime minister'a powers are also likely to be enhanced – at present the prime minister cannot sack ministers.

A bicameral commission was used in 1993 to reform Italy's electoral processes, replacing the proportional representation system.

The new commission's proposals will need to be approved by both the chamber and senate, with two-thirds of both houses backing them.

Yesterday'a compromise did not extend to another outstanding issue that has seriously hindered the operation of parliament.

This concerns a formula whereby the parties agree to get rid of the backlog of some 90 decrees inherited from the old legislature. Unless these decrees are quickly passed into law, all new business is liable to be delayed.

West increases pressure on Serbs

By Laura Silber in Belgrade and Bruce Clark in London

Mr Richard Holbrooke, the US troubleshooter in former Yugoslavia, yesterday threw his weight behind warnings that the main Serb party will be banned from Bosnia's elections unless Mr Radovan Karadzic resigns as its leader.

On the eve of today's deadline for Mr Karadzic to step down as party chief, Mr Holbrooke warned that the Serbian Democratic party (SDS) would be "out of the elections" if it insisted on keeping an indicted war criminal at its helm.

UK officials, who have stressed the need for the elections to be as inclusive as possible, said they now anticipated that the SDS would be disqualified – with Mr Robert Frowick, the US diplomat in charge of the elections, overruling any members of the electoral commission who dissented from the move.

Mr Holbrooke yesterday held his second round of talks in two days with President Slobodan Milosevic of Serbia, who faces the threat of renewed sanctions unless be hands Mr Karadzic over to the United Nations war crimes tribunal.

Before the start of yesterday's talks, Mr Holbrooke announced that Mr Ejup Ganic, vice-president of Bosnia, would next week travel to Belgrade with a Bosnian trade delegation in the first visit since the outbreak of war in Bosnia. Originally proposed by Mr Milosevic, the visit appears to be a "carrot" aimed at persuading the Serbian president, who is anxious to end Serbia's economic and political isolation, of the advantages of working with the west and delivering Mr Karadzic.

Mr Ganic, who will be accompanied by members of the Moslem-Croat Federation government and Bosnian businessmen, welcomed the invitation from Belgrade as recognising a fact of life.

The stakes are now higher than ever for the international mediators intent on sticking to the year-long Dayton plan. If Mr Karadzic refuses to disappear from the political scene, the Moslem Party for Democratic Action has warned it will boycott the poll planned for September 14. On the other hand, the Serbs are likely to boycott the election if Mr Frowick bans their SDS party.

Ahead of his meeting with Mr Holbrooke, Mr Milosevic yesterday summoned Mr Momcilo Krajisnik, speaker of the Bosnian Serb assembly, and Mr Aleksa Buha, Bosnian Serb foreign minister, to Belgrade from Pale, their stronghold.

Arriving by helicopter, they were escorted by Mr Jovica Stanisic, the powerful head of Mr Milosevic's secret police who has been an effective player in the politics of Serb-held Bosnia.

Against a background of reports to Belgrade that options were being considered for removing Mr Karadzic but not handing him over to the tribunal, Mr Holbrooke said it would be "misleading" to suggest that a deal was in the works.

A UN forensic team removing evidence of war crimes from a mass grave at Cerska in Bosnia AP

Germany urges common system to elect MEPs

By Quentin Peel in London

Germany has thrown down a new challenge to the British government over Europe, calling for a common voting system for the European parliament, which would mean introducing proportional representation in the UK.

The plan has been put forward by Mr Werner Hoyer, the minister of state in the German foreign ministry, who is his country's chief negotiator in the ongoing EU intergovernmental conference.

In an article in today's Financial Times, he singles out the continuing British insistence on its first-past-the-post election system for members of the European parliament as one of the biggest obstacles in creating a genuine European democratic system.

"The absence of uniformity is one of the main obstacles to the emergence of a public that thinks of itself as European," Mr Hoyer said. "It casts doubt on the democratic legitimacy of the European parliament."

He points out that the swing of votes in Britain, the only country in the EU to use the direct voting method, has a marked impact on the strengths of the political groups in the parliament.

The European socialist group enjoys a 44-member lead in the European parliament, accounted for entirely by the British election result. The British Labour party won 2.6m votes more than its Conservative rival, to gain that 44 seat advantage. To get the same lead in Germany, it would need a 12.5m vote advantage, Mr Hoyer says.

"Such blatant disproportionate representation of electors' intentions can no longer be defended," he says.

The German minister, who is a member of the Free Democratic Party in the German Bundestag, is calling for the EU intergovernmental conference to introduce a single system which would require a substantial degree of proportional representation in all member states. However, it would still leave enough flexibility for Britain to keep part of its old system.

He is proposing an EU-wide election system to be presented to the IGC, according to which the distribution of seats in the European parliament would be primarily determined according to proportional representation, taking account of the votes cast throughout the territory of a member state.

In addition, member states would be allowed to use the first-past-the post system, to distribute a maximum of two-thirds of a country's seats. The rest of the seats would be distributed so that the overall proportions would correspond to the total votes cast in each country.

Uniform system, page 12

Moscow acts to end energy crisis in east

By Chrystia Freeland in Moscow

The Russian prime minister, Mr Victor Chernomyrdin, has ordered an emergency shipment of 10,000 tonnes of fuel to the far east to end an energy crisis which has all but paralysed the region.

Mr Yevgeny Nazdratenko, governor of the Primorsky region on Russia's Pacific coast, applauded the "brilliant" move but warned that a second power blackout could hit the area this autumn when the new shipment runs out.

Residents of Vladivostok, the region's capital, had only three hours of electricity yesterday as a power crisis which began earlier this week deepened. Hospitals, schools and local government offices were all hit by the shutdown.

Mr Nazdratenko blamed the blackouts on the federal government's failure to pay the Rbs900bn ($180m) bill which the military and state-owned defence factories owe to local power companies. The federal debt has created a cash squeeze at the power plants, which have been unable to make the advance payments required by fuel suppliers.

The Pacific Fleet, which is based in the province, also provided stop-gap support, dipping into its own strategic reserves to offer 1,500 tonnes of fuel to two power plants near Vladivostok.

Mr Nazdratenko and other local officials said that this week's crisis has highlighted structural problems in the Russian economy which were obscured by this spring's intense political battle between President Boris Yeltsin and his Communist rival for the presidency.

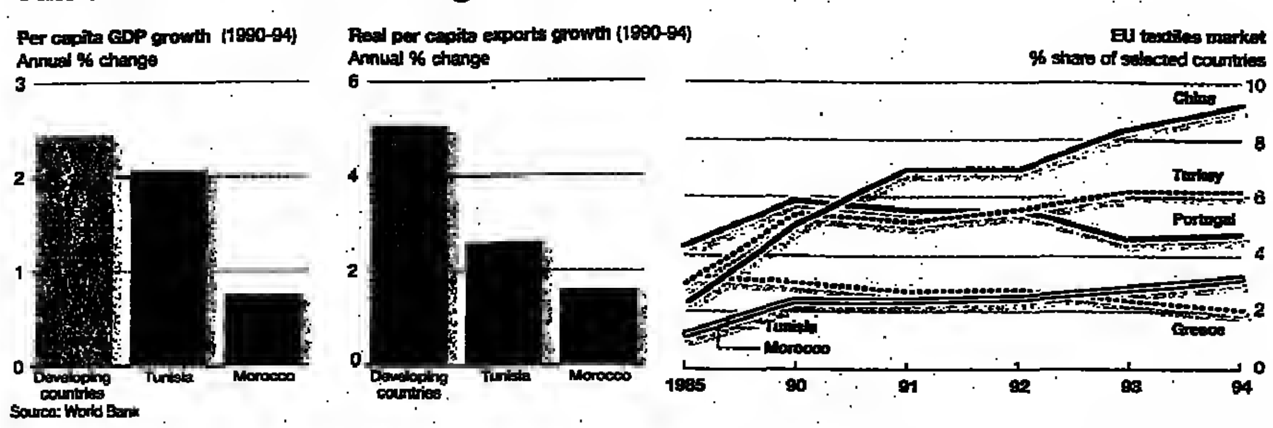
The pugnacious far eastern governor said that his region, which shares a long and troubled border with China, can survive only if Moscow alters the energy and transport policies which have drastically raised the cost of living in the area. In the Soviet period, the government subsidised freight and fuel for distant regions.

Officials at United Energy Systems, the national electricity utility, warned that fuel stockpiles at power plants across the country had dipped dangerously low. As a consequence, they said, much of the country could suffer the sort of crippling power shortages now affecting the far east later this year. The most serious power cuts, officials said, were likely to be in Siberia and along the Pacific coast.

World Bank favourites slip in reform stakes

By Roula Khalaf

Tunisia and Morocco: falling behind



Source: World Bank

Morocco and Tunisia, the two darlings of the World Bank in the Middle East and North Africa, are falling behind other developing countries, the World Bank has warned.

At seminars last week sponsored by the World Bank, Bank officials said the two countries must accelerate their integration with Europe to keep up with the rate of growth in production and international trade among developing countries.

While average per capita real exports in the developing world rose at 5 per cent a year between 1990 and 1994, the growth rate was only 2.5 per cent in Tunisia and about 1.5 per cent in Morocco. Compared with other developing countries, Morocco and Tunisia also recorded weaker per capita gross domestic product growth in the last four years.

Both countries have signed partnership accords with the European Union to create a free trade zone within 12 years but are struggling to implement the agreement. World Bank officials believe integration should occur much faster.

"The agreement with the EU will provide a very good environment and send a clear signal to local and foreign investment that governments have credible policies of integration," said Mr Christian Delvoie, World Bank division chief for the Maghreb region. "But 12 years is very long."

Morocco and Tunisia in the 1980s were committed to strict reform programmes under the auspices of the International Monetary Fund, which led to higher growth rates than in the rest of the Middle East and North Africa region. Reforms also reined in inflation, lowered budget deficits and reduced poverty levels. But a World Bank official says Morocco and Tunisia "have not yet developed the incentives on the ground for exporters to be more aggressive."

Although both countries slightly increased their EU share of textiles exports (the main merchandise export) since 1985, their performance pales in comparison with the gains achieved on European markets by other developing countries such as Turkey and China.

Bank officials tried to press the two countries into dismantling tariff barriers sooner. Pointing out that the level of protection remains high – about 40 per cent in Morocco and up to 30 per cent in Tunisia – they argued that governments should cut tariffs to discourage serving the local market and force local companies to be more competitive. Lower tariffs would also lead to more realistic exchange rates which would help boost exports.

Governments were also urged to accelerate privatisation and increase flexibility in labour markets to help attract foreign investors. Tunisian officials estimate that the EU accord will harm the economy unless they can attract about $200m of foreign direct investment a year outside the energy sector. Total FDI into Tunisia stood at a mere $300m last year, only $85m of which was outside the energy sector. Morocco fared slightly better, with about $450m in 1995. A $500m direct investment by South Korea's Daewoo should help lift Morocco's FDI levels.

The World Bank's prescriptions will not be easy for Morocco and Tunisia to swallow. Officials in both countries estimate that if barriers go down over 12 years, about a third of local industry will collapse. Concern over social instability and unemployment has often led both countries to tread carefully over economic reforms.

The flexibility the World Bank is urging will be particularly difficult for the paternalistic Tunisian government, which studies and plans every move, still effectively manages the private sector and has advanced more slowly than expected on privatisation.

The difficulty for Morocco is that the World Bank's recommendations come when the government is consumed with plans for constitutional reforms and political liberalisation. It is also attempting to narrow income disparities between the rural and urban population.

Iraq's food for oil plan accepted

By Michael Littlejohns, United Nations Correspondent, in New York

Iraq's food-for-oil distribution plan was yesterday accepted by Mr Boutros Boutros Ghali, UN secretary-general, after weeks of intense negotiations.

Mr Boutros Ghali and Mr Abdul Amir al-Anbari, the Iraqi negotiator, signed the accord, which is subject to approval by the sanctions committee of the UN Security Council. There appears little doubt that the committee, headed by Mr Tono Eitel of Germany, will give its assent to a process that will place $2bn-worth of Iraqi oil on world markets in six months.

The move came as the Security Council held further consultations in an attempt to gain access by international weapons inspectors to a site near Baghdad suspected of holding Iraqi chemical and biological armaments and possibly also missiles.

Once the oil begins to flow, extensions of the agreement are expected, to help relieve the plight of Iraqi civilians suffering from severe shortages of food and humanitarian supplies because of insufficient foreign exchange to pay for them.

Ensuring distribution of food and medicines was fair to all sections of the population including the rebellious Kurds, and that cash proceeds of oil sales were not diverted to prohibited uses held up the agreement. Mr Boutros Ghali declined to speculate when the final stage of implementation would be reached, but Mr Al-Anbari said he hoped Iraq could start selling oil by "early in August".

This will be the first relaxation of UN-imposed sanctions since Iraq invaded Kuwait five years ago.

The secretary-general began reviewing Iraq's proposals last Monday. It was still not entirely certain last night that the US and Russia approved of the distribution plan but UN diplomats believe they would hesitate to oppose it.

Burundi security talks under way

By Michela Wrong and Agencies

Preparations for an East African military operation to halt the bloodletting in Burundi got tentatively under way yesterday, despite continuing uncertainty over whether the country's Tutsi community will accept the deployment or regard it as a hostile force.

Mr Julius Nyerere, the former Tanzanian president spearheading the Burundian peace process, hosted closed-door talks in Dar-es-Salaam between Mr Salim Ahmed Salim, secretary-general of the Organisation of African Unity (OAU), the European Union's special envoy to Burundi and European and US diplomats.

Delegates were due to discuss financing, expected to come almost exclusively from the west, for an East African force of Ugandan, Tanzanian and Ethiopian troops that will, in theory, try to stop the conflict between the Tutsi-dominated army and Hutu rebels operating from Zaire.

Deployment of the force, first requested by Burundian leaders last month, was given strong backing at the OAU summit in Yaounde.

But diplomats said it was still unclear whether a "peace-keeping" or a "peace enforcement" force would be needed, given recent contradictory signals coming from Bujumbura, where the Tutsi prime minister has backtracked on his original plea for help and warned of the army being "neutralised".

Burundian officials are drawing up their own plans for the mandate for the force, which the army wants under its own command, a condition unlikely to be accepted by regional governments determined to prove their neutrality.

In Bujumbura, university students, for the most part Tutsis, yesterday called on the army to recruit young people to fight the rebels.

Bankers Trust lost $23m in copper price plunge

By Richard Waters in New York

The Sumitomo-induced plunge in copper prices in May left Bankers Trust nursing losses of $23m in its commodity derivatives business, the New York bank said yesterday.

Meanwhile, other US banks which are among the biggest creditors of Sumitomo said they remained confident the Japanese company would meet its obligations, in spite of questions over the nature of their lending.

Chase Manhattan, the biggest US bank, which is understood to have lent $500m linked to transactions conducted by Sumitomo's sacked copper trader Mr Yasuo Hamanaka, said: "We are very comfortable with our valued relationship with Sumitomo, and fully expect payment under any contracts we have with them."

J.P. Morgan, also thought to be a big creditor, said the Japanese corporation was "one of the most highly rated borrowers around".

In spite of its copper-trading losses, Sumitomo continues to have a double-A credit rating from the biggest rating agencies, a level that reflects a strong belief in the company's ability – and willingness – to meet its debts.

However, in the wake of the long-running dispute between Procter & Gamble and Bankers Trust over who should bear responsibility for losses sustained on two interest rate derivatives contracts, the issue may not prove so straightforward. In a settlement months ago, Bankers Trust agreed to meet most of P&G's losses, a move indicating that the bank partly accepted the company's claims that it had been misled about the level of risk in the contracts.

The US banks' credit exposure to Sumitomo is thought to be largely under derivative contracts entered into by Mr Hamanaka. And while there have been no suggestions of sales abuses similar to those in the P&G case, there have been rumblings that the unusual nature of the transactions should have put the banks on notice about possible abuses by the Japanese trader. That in turn could be used as the basis for any case Sumitomo might try to mount against the banks.

Such an argument would be more difficult to sustain in the wake of the P&G case, according to one US regulator.

Bankers Trust results, Page 16; Commodities, Page 24

Israeli banks in plea on troubled mutual funds

By Ilene Prusher in Jerusalem

Five leading Israeli banks which manage most of the country's collapsing mutual funds have called on the government to act to stop a complete collapse of the funds.

Investors have been deserting the country's provident funds, 15-year savings instruments which are heavily equity-based, in favour of Treasury bonds, whose yields are made attractive by Israeli interest rates of 17 per cent.

The rush to withdraw – Shk1.2bn ($376m) was withdrawn from provident funds in June, while Shk3bn is expected to be withdrawn in August, compared with an average of Shk500m a month in the previous 18 months, on Salomon Brothers estimates – has put Israeli banks who manage the funds in a precarious position.

In a letter to the finance ministry, made public yesterday, the five banks warned that if the rate of public redemptions increased, they could find themselves unable to pay all their clients on time.

Responding to the letter a finance ministry official pointed to the government's decision this week to buy bonds to stabilise prices and lower market yield.

But the five banks – Bank Hapoalim, Israel Discount Bank, Bank Leumi, First International Bank of Israel, and United Mizrahi Bank – are now urging the finance ministry to take additional steps to curb a complete provident fund collapse.

First, they are asking for an easing of old protectionist policies discouraging foreign investment.

Moreover, the banks are pointing to the damage done by an accord that gives preferential treatment to pension funds.

The funds, which represent some 40 per cent of public financial assets, have been popular because Israelis were allowed to make a certain portion of their contributions tax-free and could withdraw their gains at maturity tax-free.

"People have been losing money for two or three years," said Mr Shaul Katznelson, chief economist at Israel Discount Bank. "People look at their returns and they say it's down again, and again, and again, so now it's okay, we've had enough, we want out."

Israeli shares rebounded yesterday after 10 sessions of decline, described by analysts as a correction. The benchmark Mishtanim index rallied 6.48, or almost 4 per cent, to 176.66, in low volume.

Japan and US square up for air battle

By William Dawkins in Tokyo

Japan's transport ministry yesterday warned that it would retaliate if the US carried out a threat to impose sanctions against the cargo business of Japan Airlines.

The warning, the latest skirmish in perennially sensitive US-Japan air transport relations, came a day after the US transportation department asked Japan to comment, by the end of the month, on Washington's proposal to ban JAL from landing cargo in the US if it had been carried to US destinations from Asian airports via Japan.

The US threat, which does not specify a deadline for a final decision, is in response to the Japanese government's refusal to grant permission for Federal Express to open six cargo routes on July 1 from the US via Japan's Kansai airport into Asia, a fast-growing and lucrative market.

This is the second US threat of sanctions against Japanese air cargo operations in the past year.

The two sides nearly came to blows last summer over a similar frustrated request from Federal Express. But sanctions were averted at the last minute, after Japan gave Federal Express its licence in return for US agreement to renegotiate cargo rights under their post-war bilateral aviation treaty.

"It is very disappointing that the US has unilaterally announced the proposal to impose sanctions against Japan," said Mr Yoshiyuki Kamei, the transport minister. According to the ministry, these so-called "beyond rights" are not included in the bilateral aviation treaty. The US contests this.

Japanese officials said the likely counter sanction would be to ban an as yet unnamed US carrier from operating cargo flights between Japan and five Asian destinations, Manila and Cebu in the Philippines, Kuala Lumpur and Penang in Malaysia, and Singapore.

Japan's mighty dump truck maker is facing a challenge on its home ground

UK company takes dig at Komatsu stranglehold

By John Griffiths

Komatsu, the Japanese construction and industrial equipment maker, is to face the first challenge to its stranglehold on Japan's market for off-highway construction, quarrying and mining trucks.

It will come from Aveling Barford, a modest-sized British company once part of state-owned British Leyland, in partnership with a joint venture set up by Mitsubishi and Caterpillar, the US off-highway equipment and engine maker.

Shin Caterpillar-Mitsubishi (SC-M) is to market Aveling Barford's off-highway trucks throughout Japan under an initial three-year agreement expected to involve sales worth $30m. Aveling Barford is a wholly-owned subsidiary, and by far the largest operating company, of Wordsworth Holdings, a UK group with 800 employees and a turnover of $100m.

At least as significant for Aveling Barford, however, is the additional export prospects opened up by the newly-forged links with Mitsubishi as an international trading house partner.

The deal opens the door to Aveling Barford's off-highway trucks being included in Japan's extensive overseas aid projects, Mr Peter Youlton, managing director, said yesterday in giving details of the venture at the UK's Department of Trade and Industry. Already he expects the company's trucks to form part of one such project being studied in Pakistan.

"In the past, it would have involved Komatsu only; now they've got a choice."

Mitsubishi is also to help Aveling Barford seek business in China, where the Japanese group already has an extensive distribution network for a variety of vehicles and equipment, and in other fast-developing Asian markets where the UK company does not already have a presence.

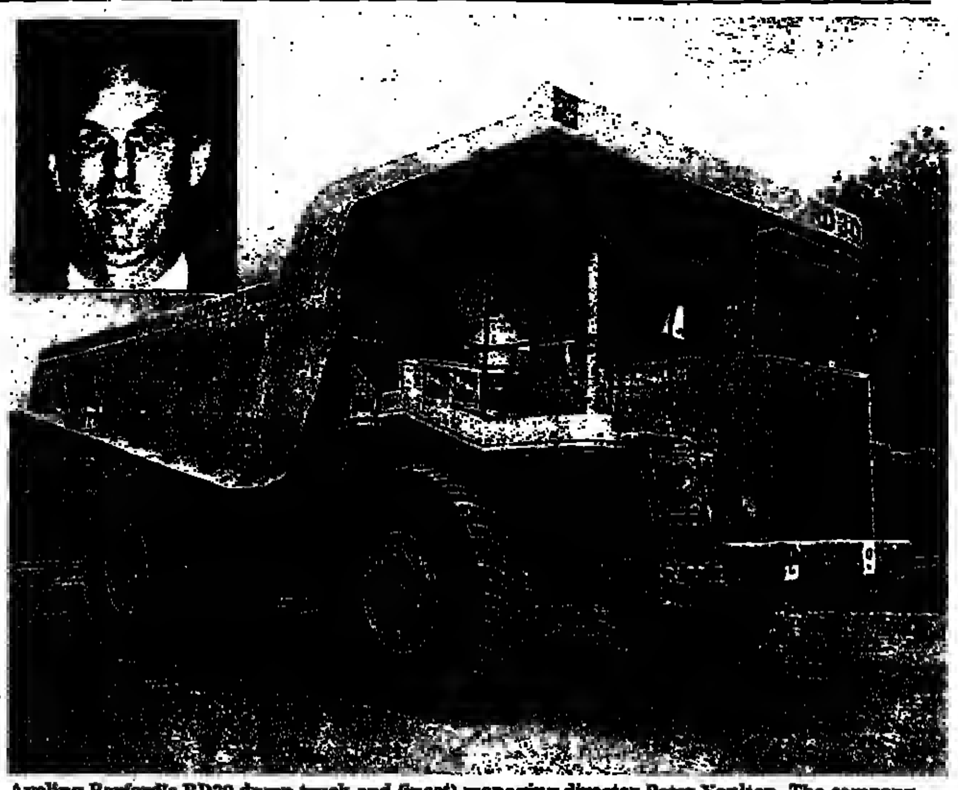
SC-M itself made the approach to Aveling Barford, which produces trucks of a size and type not produced by Mitsubishi and Caterpillar themselves, having talked to several larger rivals. The $180,000-$200,000 trucks at the centre of the deal are mainly in the 30-tonne payload category. Aveling produces 150-180 trucks a year, the biggest with payloads of 65 tonnes and each costing around $250,000.

Aveling Barford, which exports around 85 per cent of its production, is also independently examining opening up new markets in Pakistan, the Middle East and Africa. It already sells extensively to other Asia-Pacific markets as well as Latin America.

The company has doubled its turnover in the past three years and is looking for acquisitions to extend the business further, said Mr Youlton. It is also considering diversifying into other engineering areas, such as motor components.

● The name of Nippondenso will disappear from the ranks of European-based components manufacturers from August when European subsidiaries of Japan's biggest, and the world's second largest, components maker change their name to Denso.

The Japanese parent will change its name to Denso Corporation in October.



Aveling Barford's RD30 dump truck and (inset) managing director Peter Youlton. The company has big plans to invade the Japanese market

Siemens tries out 'no-frills' controls

By Peter Marsh in London

Siemens is test marketing in Britain a new range of machine tool controls destined for China on the grounds that the UK's "value for money" approach to factory automation is closer to east Asia than that of any other big European country.

"Britain is half way to Asia [in its attitude to using machine tools]," said Mr Norbert Armbrüster, Siemens' marketing director for machine tool controls.

What some might take as a back-handed compliment to the UK concerns a new set of cheap, "no frills" controls which Siemens has developed largely to meet the fast-growing market in east Asia, excluding Japan. Siemens is Europe's biggest electronics and electrical goods company.

In the world's DM5bn-a-year machine tool controls industry, Siemens is the second biggest company, accounting for about a fifth of sales. Fanuc of Japan is the leader, with 40 per cent of the market. In Europe and the US, Fanuc sells its controls through a joint venture with General Electric of the US.

Siemens' marketing efforts concern a new set of machine tool controls which sell for about DM16,000 ($10,500), less than half the price of more sophisticated controls in which the German company has traditionally specialised.

It is stepping up its attempts to sell the products to UK-based machine tool companies, many of which are accenting low-cost machines aimed at small jobbing shops, as a prelude to launching a still cheaper version of the controls system in China next year.

Mr Armbrüster said he was specifically targeting the UK's 600 Group and Bridgeport and Cincinnati Milacron of the US, both of which have large UK factories, for sales of the new systems.

In the past, the German company has been accused of "over-engineering" its machine tool prodncts, especially in relation to Fannc's cheaper controls.

Siemens believes the east Asian region, outside Japan, will account for sales in 2000 of 42,000 controls, worth DM640m. Last year, in contrast, Siemens reckons the region bought 23,000 units, valned at DM400m.

The forecast 83 per cent growth in sales in the region, in unit terms, would be far higher than the comparable 16 per cent growth Siemens foresees for the whole world.

The projections hinge on the rapid industrialisation of the region, much of which is based around hundreds of thousands of small jobbing shops meeting the demand for locally made components from groups such as multinational car companies.

WORLD TRADE NEWS DIGEST

French study water scheme

Lyonnaise des Eaux, the French water group, is conducting a feasibility study for a $100.8m build-operate-transfer (BOT) water treatment project for Ho Chi Minh City, Vietnam's booming commercial capital. Mr Vo Van Duong, director of the city's water supply company, said if the study was completed by the end of this year, the authorities could start the approval process early next year.

The project would provide 300,000 cubic metres of water a day. Current demand is 900,000 cu m daily but the city's ageing French and US-built system only provides 700,000 cu m a day.

A second water project, also at the feasibility stage, involves a consortium of Pengkalan Group of Malaysia and Thames Water of the UK, valued at $145m. Vietnam's first BOT project was a water project approved last year. The 20-year, $30m water treatment and supply project has been delayed due to difficulties in accessing land.

Ho Chi Minh City relies on a creaking water system built by French colonialists last century for a population of only 400,000. Although expanded in the 1960s under the US-backed South Vietnamese regime, it cannot cope with a city now containing about 6m people. *Jeremy Grant, Ho Chi Minh City*

Dolphins bill makes progress

The US House of Representatives Ways and Means Committee has passed trade portions of a bill allowing imports of tuna caught in encircling nets as long as dolphins that swim above the tuna are not killed. The bill, which has split environmental activists, should move to the House floor within two weeks.

The bill changes the definition of the "dolphin safe" label the US tuna industry had adopted barring use of tuna caught in the nets that used to snare and drown hundreds of thousands of dolphins in the Pacific. *Reuter, Washington*

Mongolia cleared to join WTO

The World Trade Organisation yesterday approved membership terms for Mongolia, the first former communist country to negotiate entry to the world trade body. Mongolia, which applied to join Gatt, the WTO's predecessor, in 1991, is expected to become a member later this summer following ratification of its accession protocol. It will be preceded by the Solomon Islands which will become the WTO's 123rd member on July 26.

The WTO's general council also established a membership working party for Georgia, the 12th of 15 former Soviet republics to request eotry. Only Azerbaijan, Tadjikistan and Turkmenistan have so far made no approach to the WTO. *Frances Williams, Geneva*

India ally for HK telecom group

Escorts, the Indian auto-engineering and manufacturing group, has allied with First Pacific, the Hong Kong telecoms group, in a joint venture the group says will invest Rs35bn ($1bn) over the next 10 years installing cellular phooe systems in three Indian states.

Escorts will hold 51 per cent of Escotel, the joint venture company, which won licences to provide cellular systems in the states of Haryana, Kerala and western Uttar Pradesh in a bidding round held last year. Mr Rajan Nanda, Escorts' chairman, said the venture would invest Rs14bo over the first three years. He said services in the first of 16 Indian cities to be covered in the initial investment would begin in October. *Mark Nicholson, New Delhi*

Australian states slated over investment rivalry

By Nikki Tait in Sydney

Australia's federally-funded Industry Commission has criticised the nation's states and territories for their fiercely competitive approach to attracting investors, both domestic and foreign.

"Gains from providing selective, firm or project-specific assistance at the state, territory and local government level are largely an illusion," the commission said in a draft report. "Rivalry between jurisdictions for development and jobs at best shuffles jobs between the regions and at worst reduces competitiveness and the income of Australians as a whole."

State premiers, however, yesterday claimed that the assistance was essential to boost growth and that much of the investment ultimately resulted in higher exports for Australia.

"The only thing that matters is whether we can keep our people employed, keep our community bappy, keep it growing," said Mr Jeff Kennett, the Victorian premier, whose state spent tens of millions of dollars to woo the grand prix race to Melbourne.

And Mr Dean Brown, South Australia's premier, said: "In the past two years, we have created more than 2,000 jobs in the information technology sector alone, in part as a result of industry assistance measures. Tha vast majority of these are new jobs."

According to the commission, the eight governments provide around A$2.5bn ($2bn) of annual bndgetary assistance, and another A$4.8bn of payroll tax breaks, largely to small businesses. Per head, the biggest spenders ara the smaller states and territories – South Australia, Tasmania and the Northern Territory.

Some of the more prominent examples inclnde the New South Wales government's wooing of Mr Rupert Murdoch's News Corporation to set up film studios in Sydney, and the South Australia government's assistance to Westpac bank to run a major loan centre from Adelaide.

The commission noted that similar studies of selective assistance packages in the US – also developed by states in competition with one other – were "generally assessed to be unfavourable". It also pointed out that the European Union had made efforts to limit the provision of assistance by member countries.

The commission hinted that selective aid might be unconstitutional: "The provision of...assistance to industry may not be in the spirit of the "free trade among the States" provision...of the Australian constitution," it said.

The commission report outlined a number of options which could bring greater "discipline" to the industry assistance bidding – ranging from more transparency and monitoring, to a comprehensive agreement between states to limit the provision of assistance.

US public support for free trade growing

By Nancy Dunne in Washington

Support for liberalised trade among tha American public has grown over the past five years, although a large number still believe foreign imports are a threat to US jobs and wage levels, according to a poll released by the Washington-based Committee for Free Trade and Economic Growth.

Public hostility towards trada was inflamed by the debates over the North American Free Trade Agreement and the creation of the World Trada Organisation. Clinton administration initiatives such as the Free Trade Agreement for the Americas have been stalled by congressional ambivalence over trade issues.

However, the survey found that in the last five years, Americans have grown more confident abont US competitiveness and a majority believe that foreign imports are a net benefit for the US economy.

"Public leaders need not run away from trade issues or apologise for supporting free trade," said Mr Robert Strauss, former US trade representative and a member of the committee's advisory board. "The survey fonnd that partisanship seldom makes a significant difference in trade attitude. So both Republican and Democratic leaders can make a serious commitment to free trade without risking the alienation of their own partisans."

Fifty-seven per cent of the respondents in the survey, conducted by Market Strategies, said the US was in either an "excellent" or "good" position to compete. This is an improvement of 15 percentage points from 1991.

However, 51 per cent also consider world trade practices to be generally unfair. Market Strategies conclnded that reporting about large US trade deficits has contributed to that sentiment.

The survey revealed a "clouded" public understanding of trade. While Americans favour increasing economic growth by selling more US products overseas, they also listed as equally important maintaining "decent wages in the US against cheap foreign labour".

Canberra warning over South Pacific concessions

By Nikki Tait in Sydney

Mr Alexander Downer, Australia's foreign minister, yesterday warned that concessions within the South Pacific Regional Trade and Economic Agreement (Sparteca) may not be continued indefinitely. Sparteca awards island nations preferential access to the Australian and New Zealand markets and has, for example, helped in developing a garment-manufacturing industry in Fiji.

Mr Downer said that a review of the Sparteca arrangements, begun shortly after Australia's new federal coalition government took office in March, had been completed, and that policy options were now under consideration.

"While it is too soon to predict the policy options we will put forward for discussion with the (South Pacific Forum) island countries, the message is that special concessional arrangments do not provide a lasting solution," he cautioned.

Downer: review

Both the former Labor government and the current administration have argued that as Australia's tariff levels fall, the Sparteca arrangements are of decreasing value.

In the case of Fiji, there have been initiatives to supersede these with a bilateral agreement.

However, Fiji-based exporters have attempted to push for lower local content constraints on goods that qualify for concessionary entry.

Mr Downer, making his first major statement on the coalition's South Pacific policy, also declined to giva any precise commitments about the amount of aid Australia would continue to supply to island nations – beyond saying that he hoped to ensure a "substantial contribution" despite budgetary pressures. At present, the South Pacific takes almost a third of Australia's A$1.5bn a year aid budget, of which about A$300m goes to Papua New Guinea (under treaty commitments).

The foreign minister said Australia's priority at the next annual meeting of the 15 South Pacific Forum nations in September would be to implement previously-agreed reforms in the areas of fisheries management and sustainable logging. Australia, he added, also "expects the important economic agenda to be taken forward, particularly in the areas of investment policy and tariff reform".

Airline's problems compounded as passengers' fears over the safety record of old aircraft are reinforced

Crash likely to set back TWA's return to prosperity

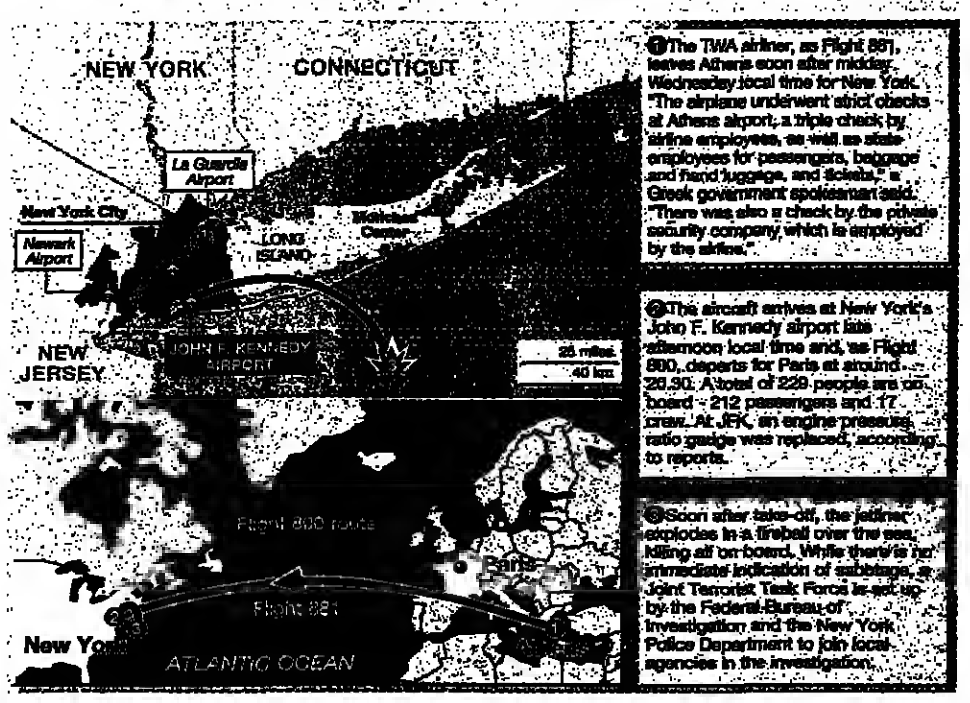
By Richard Tomkins in New York

The crash of TWA flight 800 could prove a severe setback for Trans World Airlines at a time when the twice-bankrupt company looked as though it was turning the corner in its efforts to regain financial health.

Coming so soon after ValuJet Airlines crash in May, it may also reinforce passengers' worries among the safety of US airlines that fly old aircraft. The airliner that crashed was 25 years old, and TWA's fleet is the oldest of any large US carrier.

TWA, based in St Louis, Missouri, was once one of the world's biggest and best-known airlines. This year it had been celebrating the 50th anniversary of its introduction of transatlantic services in 1946: its first-ever transatlantic flight, like Wednesday night's flight 800, left for Paris.

The final hours of Flight 800



1 The TWA airliner, as Flight 881, leaves Athens soon after midday Wednesday local time for New York. "The airplane underwent strict checks at Athens airport, a triple check by airline employees, as well as state employees for passengers, baggage and hand luggage, and tickets," a Greek government spokesman said. "There was also a check by the private security company which is employed by the airline."

2 The aircraft arrives at New York's John F. Kennedy airport late afternoon local time and, as Flight 800, departs for Paris at around 20.30. A total of 229 people are on board – 212 passengers and 17 crew. At JFK, an engine pressure ratio gauge was replaced, according to reports.

3 Soon after take-off, the jetliner explodes in a fireball over the sea, killing all on board. While there is no immediate indication of sabotage, a Joint Terrorist Task Force is set up by the Federal Bureau of Investigation and the New York Police Department to join local agencies in the investigation.

The airline's troubles began in the 1980s when deregulation of the US airline industry heightened competition. In 1988, it was taken over by the corporate raider Mr Carl Icahn in a highly leveraged buy-out, and when the airline industry went into recession, it was dragged into bankruptcy by the cost of servicing its debt.

TWA emerged from bankruptcy in 1993 in a somewhat different shape. Some of its routes had gone, including the key transatlantic routes to London, sold to American Airlines in 1991. The airline was also part-owned by its employees, who agreed to work for less pay in return for 45 per cent of the company's shares. The rest went to creditors.

The company that remained was mainly a domestic carrier ranking seventh, and last, in the league table of large US airlines. But it retained several international routes: it flew to 12 destinations in Europe and the Middle East, including Paris, Rome, Madrid, Athens, Cairo, Tel Aviv and Riyadh.

Since then, the story of TWA has been its continuing struggle to pay off its remaining debt and move back into profit. At times, its existence has looked precarious: indeed, it had to go into bankruptcy again last year as part of a financial restructuring agreed with its creditors.

Recently, however, it had begun to look as though TWA might make it. Hours before the crash of flight 800, it had reported a jump in net profits from $1.3m to $20.4m in its second quarter to June, and the company was hoping that this year would mark its return to a full year net profit for the first time since 1988.

One symptom of TWA's troubled recent history is that it has lacked the means to invest in new aircraft. As a result, the average age of its fleet has grown to nearly 20 years, and the average age of its Boeing 747 fleet is about 25 years.

Earlier this year TWA moved to reverse the ageing process by ordering 20 new Boeing 757-200s, and on Wednesday it announced that it had placed an order for five new McDonnell Douglas MD-83s with a commitment for perhaps 10 more by the end of the year.

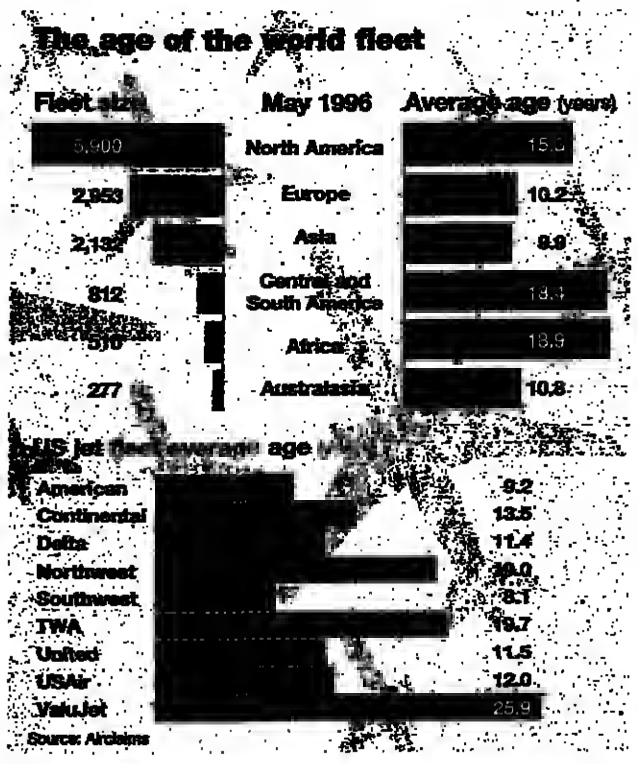
The US Federal Aviation Administration has repeatedly stressed that old aircraft are not a safety hazard as long as they are properly maintained. Nevertheless, when the ValuJet Airlines DC-9 crashed in the Florida Everglades with the loss of 110 lives, much was made of the fact that the aircraft was 27 years old.

The cause of the ValuJet crash has not yet been determined. The evidence so far points towards an explosion among some hazardous goods in the cargo hold, but ValuJet has nevertheless been grounded by the FAA because an intense inspection of its maintenance arrangements after the crash found evidence of shortcomings.

In spite of the age of TWA's fleet, it has a good safety record, with no fatal crashes in recent years. But whatever the cause of the crash of flight 800, people may be deterred from using the airline if they have an alternative. USAir, the sixth biggest US carrier, suffered a heavy downturn in traffic and severe revenue losses after suffering two fatal accidents in 1994.

TWA can expect to come under scrutiny by the Federal Aviation Authority, and in its cash-strapped state, will face the same task as ValuJet in trying to persuade the administration's inspectors that cost is not an impediment to observing the highest levels of safety.

The age of the world fleet



Source: Airclaims

Aircraft insured for $11m

The TWA Boeing 747-100 which crashed off Long Island was insured for $11m, while passenger liability for some of the 229 on board could be as high as a theoretical maximum of around $3m, it emerged yesterday, Jim Kelly reports from London.

The lead insurer for the aircraft was US Aviation Insurance Group (USAIG). The risk was placed globally by brokers Johnson & Higgins – based in the US and UK. It is understood very little risk extends to the Lloyd's of London market.

However, as investigations into the cause of the crash continued, it became clear that if terrorists had brought down the jet the liability would transfer substantially to Lloyd's – where marine underwriters specialises in the "war risks" market.

Liability insurance payouts for passengers could be $2m-$3m for each US citizen but the amounts could vary widely for all passengers depending on nationality and other factors, with minimum payouts likely around $300,000. These risks are likely to be well spread internationally. It is understood that Lloyd's is directly exposed to only around 2 per cent of the risk.

There may also be the possibility of negligence suits against the airline as was the case with the PanAm 747 airliner which exploded over the Scottish town of Lockerbie in 1988. In one action alone, a dependent was awarded $19m and several cases against the airline are continuing.

The Boeing 747-100 was one of the oldest in service, delivered in 1971. A London-based spokesman for Johnson & Higgins said they had handled the TWA account for the last two years, during which time there had been no serious accidents.

EU sets up machinery to retaliate over Cuba penalties

By Neil Buckley in Brussels and Guy de Jonquières in London

The European Union yesterday set in motion machinery to enable it to decide rapidly on retaliatory action against US legislation which would penalise foreign companies which "traffick" in confiscated assets in Cuba.

Ambassadors from the 15 member states, meeting in Brussels, agreed that US President Bill Clinton's decision this week partly to waiva the Helms-Burton Act did not go far enough, and that they should aim to present a firm and united front in their dispute with Washington.

The ambassadors approved European Commission proposals for further detailed work on possible counter-measures endorsed by EU foreign ministers on Monday. EU officials said that they expected some of the proposals to be ready for decision before next month's summer break.

"We are constructing the machinery, but not starting the engine yet," one EU government official said after the meeting.

"Mr Clinton's statement was a step in the right direction, but the main problems with the Helms-Burton legislation still exist," another member state diplomat said. "The conclusions of the foreign ministers' council still stand."

Officials of several EU governments said determination to stand firm against the Helms-Burton law had been strengthened by the US Senate's move this week to toughen another bill, which provides for sanctions against foreign companies investing in the Libyan and Iranian oil industries.

EU committees are working on four options for possible retaliation endorsed by the Council and are expected to start making detailed recommendations to the ambassadors as early as next week.

Officials said legal experts from the commission and the member states had already agreed that there was a sound legal basis for bringing a complaint against the US legislation to the disputes procedures of the World Trade Organisation.

They said a decision on whether to launch a WTO challenge would probably not be taken until early September, in order to allow time to gather further evidence and to ensure that any case was as water-tight as possible.

The Commission is expected to present to the ambassadors this month a draft EU "blocking statute", which would authorise European companies affected by Helms-Burton to counter-sue subsidiaries of US companies for damages awarded under the act by US courts.

Brussels also hopes to publish this month a "watchlist" of companies and individuals in the US which could seek damages against the US operations of foreign companies which were found to have "trafficked" in confiscated Cuban assets.

The fourth option, stricter visa requirements for US citizens visiting the EU, is expected to take longer to flesh out.

It is not yet decided whether it should take the form of EU legislation, or a concerted action by individual member states.

The ambassadors also agreed that the EU should be ready to respond to any request by Washington for discussion of international policies towards Cuba.

However, the ambassadors declared that they would firmly take action to resist any attempt to put pressure on the EU to comply with US domestic laws.

Greenspan speaks softly and shows inflation a big stick

By Michael Prowse in Washington

Financial markets could hardly have hoped for a more reassuring message from Mr Alan Greenspan, the US Federal Reserve chairman. In testimony to Congress yesterday, he predicted moderate growth and a decline in inflation next year. The economy, he suggested, would neatly skirt the opposing perils of recession and accelerating inflation.

But while emphasising the positive economic outlook, he signalled the Fed's determination to raise short-term interest rates in coming months if economic data pointed to higher inflation in the future.

"I am confident that the Federal Open Market Committee would move to tighten reserve market conditions should the weight of incoming evidence persuasively suggest an oncoming intensification of inflation pressures that would jeopardise the durability of the economic expansion," he told a Senate committee.

This would be in keeping with a monetary policy that was "designed to act pre-emptively... to look beyond current data readings and base action on its assessment of where the economy is headed".

The "central tendency" of forecasts from the Fed's governors and regional presidents was for a slowing of economic growth, starting in the second half of this year and extending through 1997. Growth would be 2.5-2.75 per cent in the four quarters to the end of this year – reflecting the unexpectedly strong first half – but would decelerate to 1.75-2.25 per cent in the same period next year.

Reflecting this expectation of moderating growth, the Fed was confident that inflationary pressures would decline next year. The consumer price index would rise 2.75-3 per cent in 1997 compared with a projected increase of 3-3.25 per cent this year. The increase this year would be higher than forecast last February, mainly because of a temporary rise in energy prices.

US economic projections

(% change, Q4 to Q4)*	Federal Reserve	Clinton Administration
1996		
Nominal GDP	[illegible]	[illegible]
Real GDP	2½ to 2¾	2.6
Consumer price index	[illegible]	[illegible]
Civilian unemployment rate	About 5½	5.6
1997		
Nominal GDP	[illegible]	[illegible]
Real GDP	1¾ to 2¼	2.3
Consumer price index	[illegible]	[illegible]
Civilian unemployment rate	5½ to 5¾	5.7

* Except civilian unemployment; average level in Q4, % Source: Federal Reserve

Looking forward, Mr Greenspan cited three reasons why economic growth would "settle back toward a more sustainable pace".

● The decline in bond prices this year would restrain demand. Intermediate and long-term interest rates had risen by 1-1.25 percentage points since January.

● The dollar had appreciated markedly on foreign exchange markets, which would depress exports and divert domestic demand towards imports.

● Spending on durable goods by households and companies would wane because "pent up demand" was exhausted, debt burdens were rising and opportunities for profitable investment were growing more scarce.

However, the timing and extent of any decline in growth was uncertain. Indeed, Mr Greenspan conceded there were several factors that could stimulate growth. A desire to rebuild corporate inventories could add significantly to production in the near term. The economies of many foreign countries were reviving, which could support exports. And financial market conditions generally – an oblique reference to the strength of equity markets until recent weeks – "remain quite supportive to domestic spending".

He noted that inflation had been surprisingly quiescent given the fall in the jobless rate to 5.3 per cent in June. The overall consumer price index had risen at an annual rate of 3.5 per cent in the first six months of this year. However, excluding energy and food, the "core" index was up at a 2.8 per cent rate – about half a percentage point slower than in the same period last year. Broader price indices – such as an index for gross domestic purchases – were also subdued.

"Although nominal wage rates have acceleratad recently, the rate of increase has been lagging significantly behind that predicted on the basis of historical relationships with unemployment and past inflation."

Mr Greenspan said the apparent lack of inflationary pressure might reflect structural changes such as workers' concern about lack of job security in a rapidly changing world and the "globalisation" of economic activity which allowed companies to reduce costs by spreading the fixed expenses of production over a broader market for their goods.

But he stressed that these forces were exerting a transitory, not permanent, impact on the level, rather than the rate of change, of wages and prices. Once the one-off gains from these structural changes had been fully absorbed, traditional inflationary forces associated with tight labour and product markets would reassert themselves.

There were "early indications that this episode of favourable inflation developments, especially with regard to labour markets, may be drawing to a close". The Fed thus had to be "vigilant to incipient inflation pressures that could ultimately threaten the health of the expansion".

Turning to fiscal policy, Mr Greenspan emphasised the critical importance of further reductions in the federal budget deficit, which would raise national savings. Significant and welcome progress had been made. However, the collapse of negotiations between Congress and the White House on legislation to balance the budget by 2002 had contributed to the negative tone of bond markets this year.

Market participants must "have been struck by the dying out of serious discussions that might lead to a bipartisan agreement to eliminate the budget deficit over time," he said.

Trade deficit for May worsens by 13%

The US trade deficit for May surged by more than 13 per cent to $10.9bn, with both imports and exports rising to record levels, the Commerce Department said yesterday, writes Nancy Dunne in Washington.

It was the third consecutive month that the overall deficit had worsened. The surge of imports defied market expectations that the deficit would fall from $8.6bn in April to $8bn. Many economists attributed the shortfall to the strength of the US economy at a time when US trading partners in Europe and other regions are recording weaker growth rates.

The goods trade deficit to Japan, which has pulled out of its recession, fell from $4bn in April to $3.1bn, the lowest point since February 1992. US merchandise exports to Japan were $5.9bn, the second highest level on record.

Mr Mickey Kantor, praised Japan's declining surplus, giving credit for the falling deficit in automotive trade to US-Japan trade pacts. The bilateral goods deficit for the year is $19bn, a sharp decline from $29bn for the same period in 1995. The trade deficit is down by 11.6 per cent in the first five months of the year compared with the same period in 1995, he said.

HK stock exchange chief executive to quit

By John Ridding in Hong Kong

Mr Paul Chow will resign from his post as chief executive of the Hong Kong Stock Exchange at the end of January next year, the exchange announced yesterday. It was immediately launching the search for a replacement.

Mr Chow's departure comes at a sensitive time for the exchange, as Hong Kong prepares for its return to Chinese sovereignty in July 1997 amid increasing competition from regional financial centres.

The reasons for the resignation were vague, with Mr Chow, 48, citing a desire "to move on to new fields" after fiva years in the post. But exchange members said he had previously indicated plans to step down and they were not surprised by the announcement. The active role played by Mr Edgar Cheng, chairman of the exchange, should ensure a smooth transition, they added.

Mr Chow has been involved in occasional differences of opinion at the stock exchange and with other regulatory bodies. Earlier this year, he sharply criticised the Securities & Futures Commission, Hong Kong's financial markets watchdog, over the scope of its authority.

Last year, he was involved in a dispute with Mr Herbert Hui, deputy chief executive of the Stock Exchange, over procedures for market consultations, an incident seen as a possible tussle for power.

Exchange officials played down the significance of such disputes and praised Mr Chow's achievements in modernising and reforming the Hong Kong market. Especially, they cited the development of an automatic order matching and execution system, the establishment of a central clearing system, and the launch of the stock option market.

"These initiatives have completely revamped the Hong Kong market, improved its transparency and greatly enhanced its risk management capabilities," Mr Anthony Neoh, chairman of the SFC, said.

Mr Chow's tenure as head of day-to-day management also spanned a time of continued improvement in the standards and regulation of the Hong Kong market. Its reputation had been hit by a series of scandals in the late 1980s, including the imprisonment for corruption of Mr Ronald Li, the former exchange chairman, and the closure of the market during the 1987 crash.

Mr Chow was regarded as a systems and technology specialist, but his tenure spanned organisational reforms which increased the role of large institutions and foreign brokers in the management of the exchange, and the listing of mainland companies on the Hong Kong market.

Since Tsingtao Brewery became the first mainland company to list in Hong Kong in 1993, the number of so-called H-share listings has risen to 20.

Colourful Hong Kong legislator Chim Pui-chung waves as he is taken to a district court Reuter

LegCo member arrested on charge of fraud

By John Ridding in Hong Kong

The representative of the financial services industry in Hong Kong's legislature was arrested yesterday and charged with fraud and conspiracy to forge, the government said.

Mr Chim Pui-chung's arrest is the latest twist in a long-running battle with the territory's financial market regulators which includes allegations of irregularities in share dealings and a property transaction on the exclusive Repulse Bay road.

The Securities and Futures Commission and the Police Commercial Crimes Bureau have been investigating share dealings in Lucky Man Properties, which is headed by Mr Chim.

In a separate case, the SFC has asked Hong Kong's High Court to wind up Mandarin Resources, a manufacturing and investment company owned 73 per cent by Mr Chim.

The company was suspended from trading on the Hong Kong stock market in 1986.

Known for his energetic debating style and his gold Rolls Royce, Mr Chim has earned a reputation for flamboyance and for his vocal conflict with the territory's market regulators.

Earlier this week, he filed a writ with the Hong Kong High Court seeking HK$50bn ($6.4bn) in libel damages from senior officials at the SFC.

Despite his arrest, Mr Chim is still entitled to sit in the Legislative Council, although the body is at present in recess.

He was elected last year through the financial services professional electoral constituency, capitalising on support from the territory's small brokerages.

According to a government statement, Mr Chim is being charged with two counts of conspiracy to forge and one count of conspiracy to defraud the SFC in order to avoid compliance with the SFC code of Mergers and Takeovers.

After appearing in court yesterday, he was freed on bail of HK$20m.

Japan sees trade surplus decline 40%

By William Dawkins in Tokyo

Japan's trade surplus dropped by 40 per cent to Y3,111bn ($28.6bn) in the first six months of this year, the biggest half-yearly drop in 16 years, but the rate of decline is slowing.

The trade gap in June alone shrank less dramatically, by 25.5 per cent from the same month last year to Y737.11bn, according to customs-cleared data from the finance ministry. But from May to June, the surplus actually increased, by 35 per cent, the second monthly rise in a row.

Tokyo economists took this as evidence that Japan's trade adjustment was losing steam. This is because the yen's decline over the past year from its record high of Y79.75 to the dollar in April last year has restored Japanese companies' price competitiveness in export markets and rendered imports more expensive.

The data had little impact on currency markets and the dollar hovered around Y108 during the day.

The pace of decline in the surplus will continue to slow until early next year, from when the surplus could start to grow again if the dollar stays at its present level, according to a prediction by Mr Tetsuro Sawano, an economist at Nikko Research Centre.

Exports in the six months to June rose by 6.9 per cent to Y21,481bn, of around a third of the rate of growth in imports, up by 23.4 per cent to Y18,369bn.

In June alone, imports rose by nearly 21 per cent in comparison with the same months last year, well below the growth rates of the previous two months and below the market's expectations, according to Mr Peter Morgan, economist at James Capel Pacific.

Exports in June rose by 7.1 per cent, also less strongly than expected.

Separately, the Bank of Japan yesterday published preliminary data showing a slight pick-up in money supply growth, further evidence of economic recovery.

The benchmark of money supply, M2 plus certificates of deposit, grew by 3.9 per cent in the year to last month, up from 3.3 per cent growth in May.

Broad liquidity rose by 4.2 per cent in June, following a 3.9 per cent increase in the previous month.

Losses plague Chinese industries

By Tony Walker in Beijing

China's debt-burdened state-owned industries continued to be "plagued" by increasing stockpiles and operational losses in the first six months of the year, restraining economic growth, a research institute under the State Council, or cabinet, says.

The report, by the council's Development Research Centre, said China might have difficulty achieving its growth target for the year of 9 per cent, though gross domestic product growth in the six months to June matched predictions.

The DRC's quarterly report reflects concern among Chinese economists that tight credit policies and a sharp slowdown in fixed asset investment may be threatening a "soft landing" for the economy with growth slowing gradually and inflation easing.

Unpublished Chinese government forecasts predict growth may slow more abruptly than is desirable this year to about 7 per cent, well below the government's target.

"Despite strong market demand for some industrial products, product sales of some enterprises withered, and stockpiles and operational losses were still two heavy burdens plaguing industrial enterprises... tight credit policy [was] still throttling some cash-starved enterprises," the report said.

Bad weather was partly responsible for the slowdown, but other factors included "enhanced macro-regulatory control on investment, and strict restrictions on management of newly-started projects". The report blamed the "descending trend" of investment growth for 22.7 per cent of the country's factories suffering operational losses in the March quarter, a slight rise over last year.

China applied tight credit restrictions in mid-1993 in an effort to bring inflation, which reached a post-1949 high of 21.7 per cent in 1994, under control. Retail price inflation stood at 14.8 per cent last year and is expected to fall to about 10 per cent this year. In the first six months inflation had dropped to 7.1 per cent against the same period last year (the June retail price figure was down to 5.9 per cent), but the report warned that bringing inflation down to 10 per cent for the whole year would be "arduous."

Wrangling reminds Pakistan of its legacy of instability

Clashes with the judiciary have added to growing concerns that Bhutto government may not last its term, writes Farhan Bokhari

Months of wrangling between the government of Ms Benazir Bhutto, Pakistan's prime minister, and the country's judiciary have served as an uncomfortable reminder of Pakistan's legacy of political instability.

Some of Ms Bhutto's own remarks recently have added to growing concerns that her government may not last its term. She has spoken about efforts by "a group" to lure members of the country's judiciary to foment a crisis in return for an offer of high office. "This group has in return offered the judges the posts of prime minister and chief ministers [of the provinces]. I hope they won't be lured," she said in a speech last month.

Her remarks followed suggestions by the conservative Jamaat-i-Islami religious party that power be transferred to the judiciary for an interim period before fresh elections could be held. Many senior officials in Islamabad are convinced that Ms Bhutto's reference to an unnamed group probably went beyond the Jamaat and could have been a reference to Mr Nawaz Sharif's opposition Pakistan Moslem League.

Frequent changes of civilian governments and almost 24 years of martial law have added little to public confidence over the ability of Pakistan's governments to last their five-year terms in office. Now, many analysts say, Ms Bhutto's government is reaching a critical moment in its efforts to survive.

The tension between the government and the judiciary was triggered when the supreme court, in a landmark ruling, curbed the government's powers to appoint senior judges without consulting with the chief justices of the supreme court and the four provincial high courts. The ruling has been welcomed by many of the government's opponents who say that it would weaken the government's ability to influence the judicial system through judges of its choice.

In another recent example of friction between the government and the judiciary, last month the supreme court restored the local municipal bodies in the Punjab, Pakistan's largest province, which were abolished in 1993. But soon afterwards, the provincial government in the Punjab, which is backed by Ms Bhutto's ruling coalition in Islamabad, overruled the court.

At the same time two of the four provincial governments were replaced when MPs who were loyal to the ruling administrations, changed their loyalties to back candidates favoured by Ms Bhutto's ruling Pakistan People's party. The government has denied opposition charges that the MPs were pressured by the PPP to change loyalties.

Meanwhile, Ms Bhutto's ruling coalition in parliament in Islamabad recently lost the support of 11 MPs, who have formed a splinter group, apparently because they opposed tax increases announced in the recent budget. They have said that they would function as a "separate" block which is seen as a move to distance themselves from the government, probably to explore other options.

Although her coalition, in the shifting loyalties of the Pakistan parliament, has the support of about 113 in the lower house of 217 (just over the 109 required for a simple majority), recent defections could set a precedent for others to follow, especially if the government is seen to be increasingly embattled.

Ms Bhutto: under serious pressure

Mr Javed Jabbar, a former government minister who now heads an advertising business says: "There's a deep crisis of confidence in the government's ability to change the direction of the country."

The Jamaat recently launched an anti-government protest campaign consisting of public demonstrations and squatting outside government offices. Mr Sharif also plans to hold anti-government public meetings in addition to a one-day national strike which he called after the budget.

The fresh taxes of about Rps40.6bn ($1.17bn) announced in the budget are almost certain to fuel inflation. Almost 64 per cent of these taxes consist of a goods and services-type sales tax on many consumer goods with the exception of basic needs such as raw foods and some medicines.

And many businessmen are up in arms over fresh taxes on personal allowances of all corporate employees, while powerful landowners, many of whom are members of parliament, have still been left relatively untouched. In an effort to placate its critics, the government has offered to reduce the tax on allowances and lower the percentage of sales tax on industrial products.

Meanwhile, the army, which has ruled Pakistan for almost half of its 49-year must be concerned at the political situation but has so far remained aloof, at least in public.

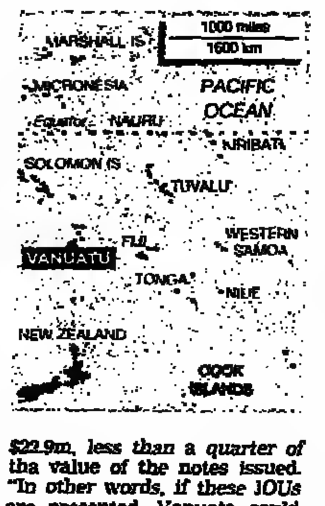
Pacific isles fight against ruin after promissory notes scandal

By Melanie Carroll, recently in Vanuatu

Vanuatu and other small Pacific island nations have fought to head off financial ruin after issuing a wave of promissory notes they could not honour.

Vanuatu is still struggling to deal with a fraud associated with $100m worth of promissory notes, backed by the government, while the Marshall Islands escaped ruin by managing to revoke similar letters of credit it issued. The Cook Islands also succeeded in annulling over $1bn in credit letters, and Nauru settled an international court action in May to recover over $60m lost in a bank note scheme.

Vanuatu's tiny economy would be placed under great strain if the notes were presented. Its annual overseas earnings last year totalled



$22.9m, less than a quarter of the value of the notes issued.

"In other words, if these IOUs are presented, Vanuatu could be bankrupt," said Ms Marie-Noelle Ferrieux-Patterson, the country's ombudsman, and an opponent of the government's use of promissory notes.

The former British-French condominium has a population of 165,000, and relies on its main export of copra, the flesh of coconuts used to make coconut oil, worth $7.7m in 1995.

The use of government letters of credit has cast doubt over the banking reputation of the small island states. The notes or letters are usually signed by heads of government, guaranteeing the bearer payment of a set amount, often denominated in US dollars.

The Port Vila government in Vanuatu fell foul of a "sting" earlier this year by two Australian businessmen, who used copies of the promissory notes to persuade reputable banks to give them credit. In effect, they "rented" the notes from the government, but the two businessmen subsequently disappeared. The country faces bankruptcy if the missing notes are ever cashed.

The Unity Front-led coalition government of Mr Maxime Carlot Korman, the prime minister since last November's election, faces strong criticism of its handling of the use of the letters.

Ms Ferrieux-Patterson published a report into the use of the "April Fool" promissory notes, so called because they were issued on or around April 1, that criticised Vanuatu's leaders for going along with the scheme.

The Cook Islands was victim of a similar scam in 1994, ending in a financial crisis that saw the New Zealand central bank taking control of the state's currency and interest rates. The Cook Islands' difficulties caused further problems for its smaller neighbour Nauru after it defaulted on a loan.

Corporation's chief branded a 'Tsar' and funding threatened after radical production changes

MPs caution BBC over World Service

By John Kampfner and Raymond Snoddy

MPs warned the BBC yesterday that the government could withdraw funding for the World Service if radical changes lead to a deterioration in output. During acrimonious exchanges, members of the all-party House of Commons foreign affairs committee branded Mr John Birt, the director-general of the BBC, "a Tsar", "dictatorial" and "arrogant".

Earlier, Mr Jeremy Hanley, the foreign office minister, said the government had been "disappointed" at being given only 24 hours' notice of changes by the corporation, which included merging the news outputs of the domestic and world services. The World Service would have its own commissioning unit but the programmes would be made in other directorates of the BBC.

Mr Sam Younger, the managing director of BBC World Service, said he was "shocked" to be told of the changes only a day ahead of their announcement. But he said subsequent discussion of the detail had allayed his concerns.

Conservative and opposition Labour MPs vied with each other in the virulence of their denunciations of Mr Birt's style of management. Mr Birt said criticism was based on a misconception that the service's independence and integrity would be jeopardised by the reforms. "I care as passionately about the World Service as anyone who has spoken or written about it in recent days," he said.

No other organisation would have handled the changes differently, he said, adding: "The scale was so great that consultation would not have been sensible or possible"

Mr David Sumberg, Tory MP for Bury South, reminded Mr Birt of a warning given by Mr Hanley to the committee earlier in the day.

Mr Hanley said the Foreign Office had the "ultimate sanction" of stopping monthly payments of the £175m per year grant-in-aid to the World Service.

"The Foreign Office will not allow the standard to fall," Mr Hanley said. Mr Birt, and the BBC chairman, Sir Christopher Bland, have been asked to meet Mr Malcolm Rifkind, the foreign secretary, next Wednesday to discuss the changes affecting the World Service. Staff of the World Service were warned yesterday that they should not write to the press criticising BBC policy on the future of the service.

● Independent Television News, the television news organisation, is to lose a significant customer for its international ITN World News service.

NBC Superchannel, the pan-European cable and satellite channel which has taken the world news service since 1987, has made it clear that it will no longer take the service when its schedules change in September.

Tax cuts dependent on public spending

By David Wighton, Political Correspondent

Mr John Major, the UK prime minister, yesterday warned Tory backbenchers that pre-election tax cuts depended on control of public expenditure after the cabinet agreed that government spending should rise by no more than 3 per cent next year.

He told the Commons that the overall freeze on public sector pay would continue, prompting an angry reaction from trade union leaders who accused MPs of hypocrisy after awarding themselves a 26 per cent pay rise.

Although the cabinet agreed the control total for public spending should be no greater than £268.2m, or 3.1 per cent more than the current year, ministers stressed that this was a ceiling.

Downing Street said the cabinet had agreed "to ensure that growth in spending is lower than growth in the economy". That would almost certainly require spending coming in below the control total.

The Treasury hopes to find cuts of between £2bn and £5bn. Although Mr John Redwood, the former cabinet minister, has called for £7bn of cuts, few believe this is possible.

The government's scope for manoeuvre in cutting spending is restricted to self-imposed no go areas, such as prisons, and by the manifesto commitment not to reduce spending on the health service in real terms.

Ministers said the curb on public sector pay, which requires any increases to be funded from efficiency savings, was a vital component of the control of expenditure and conceded that the task would be made more difficult by MPs' decision to award themselves a 26 per cent pay rise. "Obviously the point will be made and there is no point pretending it won't," said one cabinet minister.

The continued freeze brought condemnation from union leaders. Mr Barry Reamsbottom, of the civil and public service union, said his members had "witnessed MPs greedily sticking their snouts in the trough and voting themselves a 26 per cent pay rise. It is the grossest hypocrisy."

● Mail sorting and deliveries in most of Britain and the London Underground railway system were halted yesterday by strikes. Mr Tony Blair, leader of the opposition Labour party, came under mounting pressure from the government to condemn the strikes.

An appeal to the rail trade unions to accept binding arbitration was rejected. Mr Lew Adams, general secretary of the Aslef drivers union, told politicians: "Please keep out."

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THE IRISH TIMES

13 D'OLIER STREET, DUBLIN 2

WHY don't we face facts this morning? We in the Republic are not just back to the beginning, about the North. We're further back than the beginning.

The consequences of letting the Orangemen through in Portadown must have been immediately evident, last week, to a mind trained to see consequences. At least I assume that's why the President, Mrs Robinson, broke down in public when she heard that news.

I don't blame her. I only wish that British decision-makers realise how significant it is when a person such as we know the President to be is so hurt by what they do.

Three years ago Mrs Mary Robinson, president of the Irish Republic, (above left) accepted an honorary doctorate from Oxford University – at the heart of the British establishment. A newspaper item about her this week by Nuala O'Faolain indicates the sense of betrayal now prevalent in the republic.

Irish resentment rises against British action

The Protestant marches have outraged republicans

MR John Bruton, the Irish prime minister, might have angered his UK counterpart, but his public criticism of Mr John Major's handling of last week's events in Northern Ireland has certainly caught the mood in the Irish Republic.

The events in Drumcree, which reached a climax when the police allowed an Orange march through a Catholic area, have prompted usually moderate columnists and politicians to fall back on the stereotype of the treacherous British, exposing a deep resentment of what is seen as London's high-handed attitude towards a Catholic minority.

In the past, much of the tribal politics and the violence, have seemed incomprehensible to those in the Republic. On this occasion, while Catholic homes were being razed and Catholics intimidated across the north, the Irish authorities were initially slow to speak out. Government officials appeared confident that the Royal Ulster Constabulary – Northern Ireland's police force – would face down the Orange crowds at Drumcree.

But by the end of the week, Irish radio programmes were inundated with calls for the government to do something. Columnists who would normally be anti-republican found themselves in unison with the mantra-like attacks on British policy by Mr Gerry Adams, the president of Sinn Féin, the political arm of the IRA.

Even those in the Irish parliament who are broadly sympathetic to the British position attacked the UK for failing to stand up to the Orange protests.

When he did make his move, Mr Bruton surprised some political opponents by the robustness of his response – although his words reflected growing public anger. Mr Bruton is also leader of Fine Gael, seen in Ireland as the law and order party.

Mr Bruton's open criticism of Mr Major on a BBC television news programme also allowed the Irish government to seize the initiative back from Sinn Féin, the IRA's political arm.

The Irish made clear that they intended to raise the issue at yesterday's Anglo-Irish intergovernmental conference in London. The Irish decision to hold a high-profile meeting on Tuesday with Mr Adams was a further measure of Dublin's irritation with London, reversing as it did the policy of non-contact after the resumption of IRA violence.

The public acrimony is a reminder of the delicate state of Anglo-Irish relations. It is also a reminder of the volatility of Irish public opinion where "the north" is concerned. A month ago, it was the IRA in the dock when the political parties united in condemnation following the killing of the Irish policeman in county Limerick.

This week, nationalist opinion from all parties, voices from the churches and even protestant residents in the Republic, have condemned the UK government for failing to act with impartiality in the policing of the march through the Catholic Garvaghy estate.

Ms Nuala O'Faolain, writing in the Irish Times said: "The sour and bloodstained and demeaning old saw is true: we cannot trust the British."

Mr Michael McDowell, in the Irish Independent, said: "Those of us who have constantly argued against appeasement of IRA violence now know that the British government in its entirety will go even lower to appease thuggery, to appease casual violence and to reward lawlessness."

But several commentators have compared the current climate with that which prevailed after the Sunday in 1972, when the killing by British soldiers of 13 civilians in Londonderry triggered riots in Dublin in which crowds burned down the British embassy.

"The anti-British feeling is universal. I haven't seen it like this since Bloody Sunday," said Mr Sam Smyth, columnist on the Irish Independent.

John Murray Brown

Ship order beats £4bn defence funding delay

By Bernard Gray, Defence Correspondent

VSEL, the shipyard owned by the General Electric Company, in Barrow-in-Furness, in England's north-west, yesterday won a £450m ($702m) order for two assault ships for the Royal Marines. The order, which has been delayed for 18 months by negotiations over price, secures the jobs of 1,300 of VSEL's 5,000-strong workforce for the next four years.

However, as the Ministry of Defence made the announcement, Dr David Clark, the defence spokesman for the opposition Labour party, attacked the government for the delay in announcing the rest of the £4bn of defence orders which had been expected before parliament rises next week. Orders for maritime patrol aircraft and two missile systems have been held up by a dispute between Mr Michael Portillo, the defence secretary, and Mr Kenneth Clarke, the chancellor of the Exchequer, over public spending and the MoD's budget.

Dr Clark yesterday claimed, "this unseemly squabble between the two wings of the Tory party risks jeopardising the interests of our armed forces and puts thousands of British defence jobs at risk".

Manufacturers competing for Cruise and anti-tank missile contracts, and the maritime patrol aircraft order, are increasingly dismayed at the delay. Backbench Tory MPs, many of whom expect the defence work to go to marginal constituencies, are also angry at the hold-up.

With parliament retiring for a three-month break next Wednesday there is very little time to meet the MoD's timetable of making announcements before the recess. Officials say that decisions could be announced after parliament has risen, a move likely to anger the opposition. The delay also means orders could be shelved, with the £700m anti-tank missile under particular threat.

Mr Brian George, chief executive of GEC Marine, said yesterday: "This order was absolutely vital to the future of VSEL. It gives us the chance to introduce our new business practices which can make the yard even more competitive to win other work."

For many years the Barrow yard has specialised in submarine construction, including the four Trident nuclear deterrent submarines. With the last Trident boat half-finished, the yard needs further orders.

VSEL will fit out HMS Ocean, a helicopter carrier to support the Royal Marines, and is competing for a £200m contract for two oiler ships – which help to maintain other vessels. The company is competing for commercial ship orders and light artillery for the US army.

VSEL also needs to win a substantial share of work on the £3bn contract for Trafalgar hunter-killer submarines.

US Lloyd's investors 'may miss out on deal'

By Jim Kelly, Accountancy Correspondent

Lloyd's of London warned yesterday that some US investors could be cut out of the £3.2bn ($4.95bn) out-of-court settlement which is at the heart of the insurance market's recovery plan.

It said that 32 US state securities regulators had backed the plan – representing around 85 per cent of the 2,700 Lloyd's investors, or Names, in the US.

But Lloyd's said that Names resident in states outside the agreement will not benefit from the special £40m "credit fund" set up for US Names and therefore may be ruled out of the overall settlement.

"It would be tragedy if some US Names are denied the enormous benefits of reconstruction and renewal," said Mr Peter Lane, managing director of Lloyd's North America.

Some states are still in talks with Lloyd's while a "small minority" have rejected any agreement.

In a separate development a federal court in Texas dismissed a case brought by 77 Names on the grounds that the case should be heard in England.

They wanted their obligations rescinded alleging that they were victims of fraud.

In a swingeing judgment Judge Lynne Hughes said: "Somewhere a crippled American will not be compensated for his injuries because an American Name refused to pay the claims against the policies he issued."

She added: "The plaintiffs are indignant that a consequence of issuing insurance policies is paying claims."

Turning to the recent intervention into the Lloyd's affair by the Securities and Exchange Commission she added: "Twenty five years of silence from the SEC is more than glacial government: it is consent."

Out-of-town shopping centres fall out of favour

The latest retail development in southern England may be one of the last to be officially endorsed

Work has only just started and the design is distinctively modern, but the planned Bluewater shopping centre in north Kent already has the aura of a bygone age.

Government planning policy has turned against out-of-town shopping since Bluewater was conceived in the late 1980s. The 1.65m sq ft centre is likely to be one of the last – as well as one of the biggest – of its kind.

Lend Lease, the Australian property and financial services company, last month raised £375m ($585m) from a consortium of banks to finance the development.

Mr Michael Heseltine, the deputy prime minister, who yesterday inaugurated the project, said that up to 7,000 jobs would be created during its three-year construction phase. When Bluewater opens in 1999, it is expected to produce a further 6,800 jobs, both at the centre itself and in industries servicing it.

While these figures are impressive, they are diluted by the fact that Bluewater will draw retail trade away from town centres in the region. The government now wants to end the creation of shopping centres which threaten established town centre retailing and create additional traffic.

Mr John Gummer, the environment secretary, last month issued new planning rules which will make it difficult for developers to win planning permission for even relatively modest schemes.

Lend Lease argues that the proximity of Bluewater to London will minimise the impact on neighbouring towns. More than 9m people live within an hour's drive of the site, which is adjacent to the M25 and M2 motorways. The company says that this pool of potential customers is big enough to be absorbed by Bluewater without causing damaging waves.

The UK's first covered shopping mall was built in the 1970s at Brent Cross, a suburban location in north London. The first really large out-of-town scheme was the MetroCentre near Newcastle, in the north-east of England, which opened in 1986.

Neither of these had a severe impact on the surrounding area. Both central London and Newcastle were big enough to compete head-on with large covered malls.

But from the mid-1980s to the end of the decade more than 50 proposals for "regional" shopping centres were put forward, of which eight were granted planning permission.

Three of these were built before the property recession struck in the early 1990s. Each had a negative impact on established shopping areas in surrounding towns.

This experience was instrumental in turning government policies against a proliferation of big shopping centres. The remaining five centres with planning permission, including Bluewater, are now under construction.

The other sites include two planned for the north of England, one in the south-west, and one in Scotland to be completed within the next two years.

Unless government policy swings abruptly back in favour of out-of-town shopping, these developments are likely to be the last of their breed for a generation.

Simon London
Additional reporting by Marco Vincenzino

UK NEWS DIGEST

Matsushita to invest £7.6m

Matsushita Electric of Japan is to invest £7.6m ($11.85m) at its Cardiff plant in an expansion which will create more than 300 jobs during the next three years. The project, supported by a Welsh Office grant, will increase the plant's output of microwave ovens and introduce the production of digital video boxes and digital televisions.

Mr David Rowe-Beddoe, chairman of the Development Board for Rural Wales, said yesterday a record number of five foreign companies had chosen to invest in rural Wales during the past year. A total of 31 inward investment projects to the region, including those from other parts of the UK, had been secured. Nearly 1,600 jobs were created or safeguarded.
Roland Adburgham, Cardiff

■ PRIVATISATION

Auditors criticises rail sell-off

British Rail, the former state-owned railway company, mishandled the sale of seven maintenance depots with the result that it raised less than it might have done while bidders were not given equal treatment, according to a National Audit Office report published today. The report examines the privatisation in June 1995 of six heavy maintenance depots and one small electronic service depot. Three of the maintenance depots were bought by ABB, now Adtranz, for £17.7m, ($27.61m) two were acquired by Railcare for £6m, and one was bought by its management, acting as Wessex Traincare, for £5.6m.

The sale of the seven depots for a total of £32.3m was handled by BR's vendor unit. Six companies, including two management buy-out teams, put in bids for a wide range of combinations of the six heavy maintenance depots but by the later stages of the competition there was little effective competition between them, the report said.

This was the result of BR's desire to prevent bidders gaining a monopoly of certain types of maintenance work, worries about rail privatisation generally which deterred some potential bidders, and the possibility that bidders knew they had been selected as "preferred bidders". The initial value of the six bids was £43.5m but this had been reduced to £29.3m by the time the final price was agreed.
Charles Batchelor, London

■ INVESTMENT FUNDS

Treasury to expand range

New rules setting out the framework for Open Ended Investment Companies (Oeics) – pooled investment vehicles similar to unit trusts – were announced by the Treasury yesterday.

The proposed regulations, which will be debated by parliament in the autumn, allow fund managers to offer Oeics onshore, and compete with off-shore centres such as Dublin and Luxembourg, where they are already well established. The first UK Oeics will be set up in January 1997.

The Association of Unit Trusts and Investment Funds welcomed the move, saying that Oeics would be flexible to manage and marketable throughout the European Union. Many continental investors are unfamiliar with the UK's trust structure, and prefer to invest in investment companies. The Oeics will be single-priced, unlike unit trusts, with no spread between buying and selling prices – making charges more transparent to investors.
Krishna Guha, London

■ NATIONAL LOTTERY

Operator to launch second draw

Camelot, operator of the National Lottery, plans to launch a second weekly draw later this year to boost lottery revenues that have reached a plateau.

Most lotteries around the world operate an on-line draw in the middle of the week and experience shows that revenues are increased by between 25 per cent and 30 per cent. Because the UK National Lottery is already the biggest in the world the rise may be closer to 20 per cent, but the second draw is likely to revive controversy over the profits for Camelot, a consortium made up of Cadbury Schweppes, GTech, Racal, ICL and De La Rue, the security printer.

The application to launch a midweek draw was confirmed by Mr Peter Davis, director general of the Office of the National Lottery, the lottery regulatory body.

Sales of about £68m ($106.08m) a week from the Saturday draw and £17m a week from scratchcards are flat, running at an annual rate of £4.45bn compared with £5bn last year.
Raymond Snoddy, London

■ CONSTRUCTION

Overseas orders rise 45%

British construction companies struggling to make headway in a depressed home market increased the value of overseas orders by 45 per cent last year to £5.5bn, ($8.58bn) according to figures published yesterday by the Department of the Environment.

The biggest gains were achieved in Hong Kong where British companies have been highly successful in winning work for the colony's new international airport at Chek Lap Kok and also in North America where British companies have been expanding through acquisitions.

Mr John Gummer, the environment secretary, announced a series of trade missions to south-east Asia, South America, the Middle East and Russia in the next few months to support Britain's construction efforts abroad. Mr Robert Jones, the construction minister, will lead the first of the missions, to China between July 24 and August 1.

British construction companies, criticised for failing to match mainland European and north American rivals in overseas markets, have more than doubled the annual value of international orders won since 1991. Last year, the value of contracts awarded in the Far East increased by almost two-thirds to £1.64bn. Orders won in Hong Kong alone increased by 61 per cent from £668m to £1.07bn. Contracts placed in North America rose by more than 80 per cent from £1.1bn to almost £2bn.
Andrew Taylor, London

■ MANUFACTURING

Hardboard imports face challenge

A £40m ($62.4m) hardboard mill, opened yesterday by Mr William Hague, the Welsh secretary, near Ebbw Vale in south Wales, is forecast to capture nearly half of the UK market by the end of next year, replacing imports. The purpose-built factory, on a 17-acre industrial site, is the UK's largest greenfield manufacturing start-up to be funded by venture capital.

The plant has a capacity of 88,000 tonnes a year and Tech-Board, the company, predicts it will reach that level by the third quarter of next year. Tech-Board already has an undisclosed level of orders from industrial customers, including the furniture, joinery, fancy goods and automotive industries.

The company says it is the first hardboard mill to open in Europe for 20 years. The last UK hardboard plant closed in 1989 and domestic demand of about 180,000 tonnes has since been met by imports from Spain, Finland and other countries, including some in South America.

Import substitution is expected to cut the trade deficit by about £25m a year and Tech-Board also hopes to export up to a quarter of its output.
Roland Adburgham, Cardiff

■ AIR TRAVEL

BA to transfer S American routes

British Airways is to switch its Latin American routes from Heathrow airport, creating up to 500 jobs at Gatwick airport. BA said: "The feedback [from travel agents and others involved in Latin American services] has been very positive." The Latin American routes are to be transferred, on March 17 next year and include flights to Argentina, Brazil, Chile, Colombia, Mexico and Venezuela.
Stefan Wagstyl, London

BUSINESSES FOR SALE

Claire Broughton 0171 873 3234 Fax 0171 873 3064 Karl Loynton 0171 873 4874

LEGAL NOTICES

**ONTARIO COURT OF JUSTICE
(GENERAL DIVISION)**

IN THE MATTER OF
CONFEDERATION LIFE INSURANCE COMPANY

AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, AS AMENDED

AND IN THE MATTER OF THE
WINDING-UP ACT, R.S.C. 1985, C.W-11, AS AMENDED

NOTICE PURSUANT TO
ORDER OF THE ONTARIO COURT
(GENERAL DIVISION) MADE JULY 16, 1996

Take notice that on Monday, August 12, 1996, at 10:00 a.m., the Superintendent of Financial Institutions, provisional liquidator (the "Liquidator") of Confederation Life Insurance Company by his Agent KPMG Inc. will move before the Ontario Court (General Division) at Osgoode Hall, 130 Queen Street West, Toronto, Ontario, for an order:

1. approving the entering into of a settlement agreement (the "Settlement Agreement") dated June 11, 1996 between the Liquidator and the Commissioner of Insurance for the State of Michigan, as Rehabilitator of Confederation Life Insurance Company (U.S.) in Rehabilitation;
2. for advice and directions with respect to the making of a request pursuant to Section 164 of the Winding-up Act as contemplated by the Settlement Agreement, and
3. for related relief.

You may obtain a copy of Liquidator's Report in support of the motion by telecopying your request to Goodman Phillips & Vineberg, counsel for the Agent (Fax No. 416-979-1234, Attention: Fanny Paquette), or by calling the Agent at 416-413-3200

If you wish to attend and make submissions at the hearing of the motion, you must:

1. serve by fax or by courier a notice of your intention to appear, on Goodman Phillips & Vineberg, counsel for the Agent and on the parties set out on the Service List, and file such notice with the Court, all on or before July 29, 1996. The notice must set out your name and the nature of your interest in the motion and your address and telephone and facsimile numbers, as well as the name, address and telephone and facsimile numbers of your representative (if any);
2. serve by courier on Goodman Phillips & Vineberg and on the parties set out on the Service List and all other parties having filed notices of their intention to attend on the motion, any evidentiary material on which you intend to rely and file a copy of such materials with the Court, all on or before August 6, 1996; and
3. serve on the same parties listed above and file with the Court any factum or authorities on which you intend to rely, on or before August 9, 1996.

You may obtain a copy of the Service List, and a list of parties who have filed notices of their intention to attend on the motion, by making facsimile request or telephone request as set out above. MATERIALS ARE TO BE COURIERED TO GOODMAN PHILIPS & VINEBERG, COUNSEL FOR THE AGENT AT: 250 Yonge Street, Suite 2400, Toronto, Ontario, Canada M5B 2M6 Attention: Fanny Paquette.

SUPERINTENDENT OF FINANCIAL INSTITUTIONS,
Provisional Liquidator of Confederation Life Insurance Company, by his Agent, KPMG Inc.

One Mount Pleasant Road
Toronto, Ontario, Canada
M4Y 2Y5

PUBLIC NOTICES

NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SECTION 7(7) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby give notice as follows.

1. Following the public consultation which ended on 22 May 1996, he intends to revoke on 9 September 1996 both the Class Licence To Run Branch Systems To Provide Telecommunications Services (TSL) and the Class Licence For The Running Of Self Provided Telecommunications Systems (SPL) which were granted by the Secretary of State under Section 7 of the Telecommunications Act 1984 ("the Act") on 4 November 1994 and 30 July 1992 respectively. On 9 September 1996 he intends to issues a new Class Licence To Run Branch Systems To Provide Telecommunications Services and a new Class Licence for the Running of Self Provided Telecommunications Systems. The licences will be for a period of 25 years subject to earlier revocation in circumstances specified in the licences.
2. As indicated during the public consultation there are three main variations between the current licences and the proposed new licences. The designated maintainer regime is to be abolished. It is intended that this will introduce a more competitive environment for the provision of maintenance services. A new privacy condition is to be introduced requiring licensees to make every reasonable effort to inform parties to a 2-way live conversation of any recording, silent monitoring or intrusion into the conversation. The equipment approvals condition is to be brought into line with the requirements of the Telecommunications Terminal Equipment Directive with the effect that indirectly connected equipment, such as personal computers and televisions, will *not* require type approval.
3. Various other minor or consequential amendments are to be made to both licences to standardise the conditions and definitions. The existing interpretation and meaning of the text is not changed by these other amendments.
4. Since the revised TSL and the SPL will permit the connection of hearing aids to the public network, the Secretary of State intends to revoke on 9 September 1996 the Class Licence for Running of Hearing Aids and Acoustically Coupled Apparatus which use Telecommunications Systems and the Class Licence for the Running of Telecommunication Systems connected to Hearing Aids and Acoustically Coupled Apparatus. These licences were granted under section 7 of the Act on 3 August 1984.
5. Advice on the provisions and coverage of the TSL and the SPL can be obtained from OFTEL. An addendum to the Explanatory Guide to the TSL and SPL detailing the changes to the licences can be obtained free of charge by writing to OFTEL Library, 50 Ludgate Hill, London EC4M 7JJ or by calling 0171 634 8700.

Christopher Holmes
Department of Trade and Industry

LEGAL NOTICES

INSOLVENCY ACT 1986

SUNSTREAM LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 98 of the Insolvency Act 1986 that a Meeting of Creditors of the above named Company will be held at Novotel London Heathrow, Junction 4, M4, Cherry Lane, West Drayton UB7 9HB on 24 July 1996 at 2.30pm for the purposes mentioned in Sections 99 to 101 of the said Act.

A list of the names and addresses of the Company's Creditors may be inspected free of charge between 10.00am and 5.00pm at Albion Court, 5 Albion Place, Leeds LS1 6JP on the two business days preceding the date of the Meeting.

Dated July 15 1996

By Order of the Board

MISS FELIZ REZWAN Director

APPOINTMENTS

CONTRACTS & TENDERS

GOVERNO DO ESTADO PARANÁ COPEL

SALTO CAXIAS HYDROELECTRIC POWER STATION IGUAÇU RIVER INTERNATIONAL BIDDING C-306 AUXILIARY SERVICE EQUIPMENT CALL FOR BIDS

COMPANHIA PARANAENSE DE ENERGIA - COPEL, informs that an international bidding is open for design, manufacture, shop tests, transportation, delivery on jobsite and warranty for the auxiliary service equipment listed herein for the Salto Caxias Hydroelectric Power Station, located on the Iguaçu River, in the State of Paraná, Brazil:

- Medium Voltage Switchgear
- Unit Substation
- Motor Control Center
- DC Switchboard

This lowest price type international bidding is open to individual companies and/or joint ventures.

The costs related to this supply will be covered by COPEL's own funds.

The Instructions to Bidders and the Contract Documents will be available to bidders from July 02, 1996, until the day before the documents delivery date, against payment in Brazilian currency of R$ 150,00 (a hundred and fifty Reais), at the following addresses:

Superintendência de Obras de Geração
Rua Voluntários da Pátria, 233 - 5º Andar - Sala 504
80020-000 - Curitiba - PR, Brazil
Phone (55-41) 322-1212 - Ext.5541
Fax (55-41) 331-3265
or
Escritório COPEL / São Paulo
Alameda Santos, 1800 - 14º Andar - Conj. 14B
01418-200 - São Paulo - SP, Brazil
Phone (55-11) 289-1431

At the time of purchase of the Instructions to Bidders and the Contract Documents, the company shall present a letter containing name and department of the person for contact, his/her complete mailing address, phone and fax.

The receipt of the Qualification Documents and the Price Bids is scheduled for September 19, 1996, at 2:00 PM., at COPEL's office meeting room, in Curitiba, 233 Voluntários da Pátria Street, ground floor.

The Bidding will be ruled by Brazilian Law no 8666, date June 21, 1993, and by other conditions stated in the Instructions to Bidders and in the Contract Documents.

OFFICE DES PORTS AERIENS DE TUNISIE
(Tunisia's National Ports Authority)

International pre-selection notice

The Office des Ports Aériens de Tunisie (OPAT) wishes to lease, *under the rule of Temporary* Occupancy of Public Property, duty-free shops for international travellers at arrival and departure gates in the following airports: Tunis - Carthage; Monastir Habib Bourguiba; Djerba- Zarzis; Sfax-Thyna; Tozeur-Nafta and 7 Novembre Tabarka.

Interested parties may obtain the relevent files, *which contain the specifications book and* appropriate documents, from the following address, during working hours - Monday to Friday: 8 a.m. to 12:30 p.m. on payment of 1,000 dinars;

**OPAT, Bureau N° 38,
Aéroport International
de Tunis-Carthage, Tunisia.**

Tenders should be placed in two sealed envelopes. The outer envelope should only be marked: "Do Not Open - International Tender to lease duty-free shops." It should also contain the following documents:

1) A valid social security affiliation certificate (for local tenderers);

2) A valid attestation proving compliance with the Directorate of Taxes (for local tenderers).

The inner envelope should bear the tenderer's name and contain the documents indicated in Article 30 of the specifications book (clausas particulières).

• For local tenderers:

- The provisional banker's draft can be settled in Tunisian dinars for the equivalent of 150,000 Ecus;
- The non-bankruptcy/legal prevention certificate may be replaced by a written pledge.

Only parties which have obtained the relevant files and registered their name at OPAT can participate in this pre-selection.

Tenders should be sent to the following address by registered mail:

**Monsieur le Président Directeur
Général de l'OPAT,
Aéroport International de Tunis-Carthage,
Tunis-Tunisia.**

Tenders should be received by the OPAT's Bureau d'Ordre Central no later than 12:30 pm on August 5, 1996.

The seal of the OPAT's Bureau d'Ordre is proof of date.

MINISTRY OF ARTS,
CRAFTS AND TOURISM SPA BUREAU

INTERNATIONAL INVITATION TO TENDER FOR THE SALE OF THE JEBEL OUST HOTEL, SPA AND SPORTS COMPLEX

The State, in accordance with its policy of withdrawing from the competitive sector, is pursuing a programme to restructure the spa & water cure sector and sell all the production units of the Spa Bureau. Under this programme, an international invitation to tender is being launched for the sale of the Jebel Oust Hotel, Spa and Sports Complex.

Specifications are available, from the date of publication of this announcement, from the Spa Bureau (Office du Thermalisme) at 8 rue du Sénégal 1002 Tunis le Belvédère, Tunisia; at a cost of TND300 (three hundred dinars).

Interested parties in possession of specification can visit the Jebel Oust Hotel, Spa and Sports Complex on working days from 9am to 12pm. Appointments must be made in advance with the Chairmen and Managing Director of the Spa Bureau.

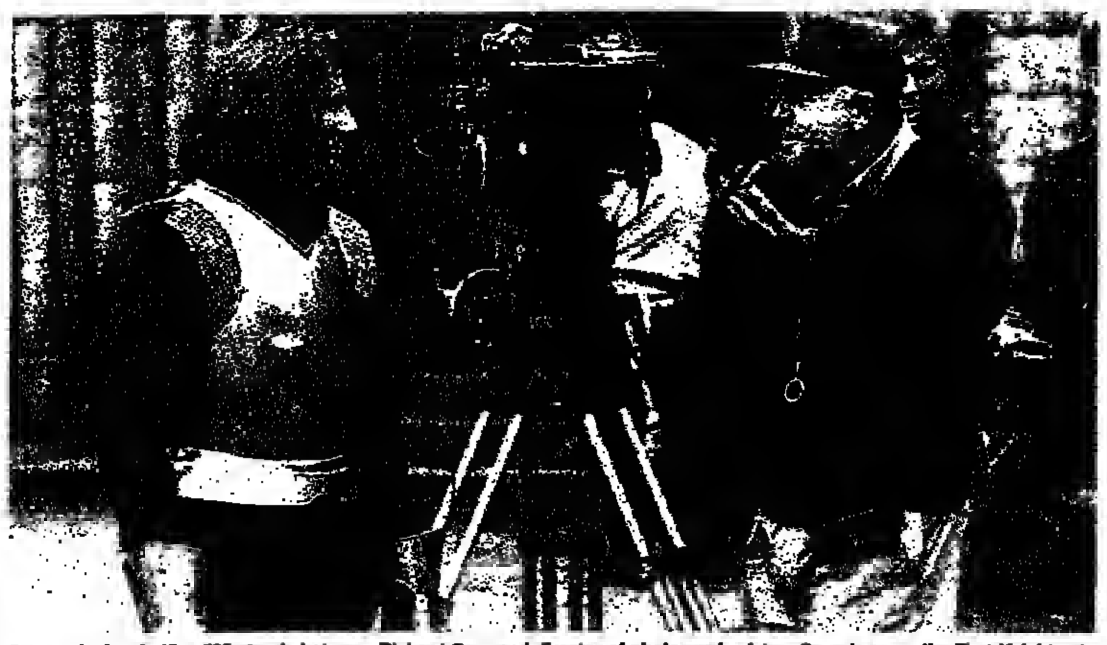
Tenders, accompanied by the specifications and annexes, should be sent by registered mail in a sealed double envelope to the Ministère du Développement Economique, secrétariat de la Direction Générale de Privatisation, Place Ali Zouaoui, 1000 Tunis, Tunisia.

The outside envelope should bear no indications other than the words *Ne pas ouvrir - appel d'offres pour la vente du Complexe Hôtelier-Thermal et Sportif de Jebel Oust* (i.e. Do not open - tender for the sale of the Jebel Oust Hotel, Spa and Sports Complex).

Tenders must be received and stamped no later than Saturday September 7, 1996 by the Ministry of Economic Development orders department.

Tenders received after this date or incomplete tenders will be rejected.

TECHNOLOGY



Oscar-winning Arriflex 535 stands between Richard Gere and director of photography Adam Greenberg on the First Knight set

Camera's starring role

Andrew Fisher on Oscar-winning performances by a German movie-making equipment manufacturer

When the Oscars are handed out each year, the publicity blaze is intense. Hollywood brashness and bravura are on full display. Attention, however, is focused mainly on the prize statuettes for the best films and the people who make and star in them. Not many take much notice when the production side of the industry is honoured.

Yet there are Oscars for those behind the scenes, and not just for camera-work, music or special effects. The makers of equipment also receive honours, and one Munich-based company has now been recognised seven times by the Oscar-awarding Academy of Motion Picture Arts and Sciences.

Arnold & Richter, founded in 1917 by August Arnold and Robert Richter, has become a byword for innovation in the film industry with its Arriflex range of cameras and other equipment. This year, the German company received a technical Oscar – in the scientific and engineering category – for its ground-breaking Arriflex 535 camera.

The camera, fully equipped with lenses, viewfinder, electronic control unit and other functions, costs around DM500,000 (£210,000). For that, film-makers get a range of computerised applications which simplify both the director's work behind the camera and post-production processes such as cutting, editing and special effects.

"It makes shots possible that couldn't be attempted before," says Walter Stahl, Richter's son-in-law, who runs the privately-owned company with fellow-director Bob Arnold, son of the other co-founder. "Scenes can be filmed in one go with different lighting and without losing depth of field."

He says the 535 is the first camera to use microprocessors and software to link and communicate all camera functions with other production and post-production systems. It was this concentration of features – tested and used in the industry for several years – which won the company the Oscar. In its award letter, the academy stressed the Arriflex 535's "full intelligent computer control" and innovative design.

The electronically-linked functions include changes in the iris (the lens diaphragm through which light entry is controlled), the shutter-opening angle, the frame rate (filming speed) and image data. When used with sound, the camera is very quiet because of its stable, sophisticated construction. Scenes can even be shot in reverse for unusual effects.

"The computerised camera allows the shooting of more complicated scenes with less effort and cost," says Stahl. Shooting can move from light to dark, such as from a street to a hotel foyer, without losing focus. The speed of the camera can be changed at the same time. "Imagine an action scene which is usually filmed with under-speed to give the impression of more velocity, with dialogue in between."

Action scenes, such as the sword-fights in *First Knight* starring Richard Gere and Sean Connery, can be filmed at 21 frames per second, but speed must be up to the normal 24 fps for dialogue. The shutter angle also has to be adjusted while shooting below standard speed. All this, including any move between light and dark scenes, can be programmed, including the focus.

"To the audience, the film will appear natural and people will not detect the manipulation," says Stahl. In *First Knight*, based on Arthurian legend, four 535 cameras were used. Actors held papier-maché handles during swordfight scenes filmed at 21 fps and then screened at 24 fps to speed up the action; the swords were put in by electronic retouching.

Michael Ballhaus, the German cameraman who works with director Martin Scorsese, likes the freedom the 535 gives him. In Scorsese's *The Age of Innocence*, the ballroom scene was filmed at different speeds to highlight the characters. Part of one take was filmed at 24 fps, then at 36 fps (for a slow motion effect when screened at normal speed) and again at 24 fps.

Yet the 535's features are not just for the director's benefit, says Stahl. They come into their own during the important post-production stage. "Special effects play a bigger role in today's films. If you have a camera that shows the detail of each shot in digital form, this can be used in post-production to make the process better and easier. Every frame has a time code – so each frame can be separately identified."

With increasing use of digital film processing systems such as Eastman Kodak's Cineon, directors and technicians have an array of high-technology equipment at their disposal. In a recent German film, *Schlafes Bruder* (Sleep's Brother) – about an undiscovered musical genius in 19th century Austria who dies of sleeplessness over unrequited love – director Joseph Vilsmaier used the adjustable mirror shutter for a computer-controlled six-hour panning shot of a mountain panorama.

When shown in the cinema, the changing light and clouds race across the sky at 100 times normal speed. For a village fire scene, Cineon was used to combine painted images, filmed flame scenes and shots of the main characters to produce a complete sequence. The fire's reflection was made to flicker across a face, with the nose casting a realistic shadow. This was done with a 3-D simulation of the face in the computer, which calculated the correct shadow angle.

Other films in which the 535 has been used include *Schindler's List*, *Dracula*, *Little Buddha* and *Robin Hood*. Yet Arriflex, with a turnover of around DM270m, does not have a dominant position in the Hollywood market. Los Angeles-based Panavision, its main competitor, has the upper hand through its big rental business to studios.

The German company's main strength is in the international market, where it has a share of around 80 per cent. Since more than 4,000 films are made around the world each year (including some 400 in the US), that leaves plenty of customers elsewhere.

MANAGEMENT

JOHN KAY

Why piece work went out of fashion

In the bad old days, weekly paid workers in manufacturing industry were often employed on piece rates. Output targets were set, and you were rewarded for meeting or exceeding them. The system did not work well.

People paid in this way rarely showed much commitment to the firm or the product – indeed the underlying assumption was that they would not have any such commitment and the assumption proved self-fulfilling.

The incentive was to meet the target, not to satisfy the customer. So you would rather kick a defective part into position than delay the production line. And the business of setting and negotiating targets encouraged gamesmanship and role playing. It made sense to conceal how much you could do, rather than make suggestions for increasing productivity.

The film *I'm All Right, Jack* was a hit because it was substantially true. Mr Pike was a fictional character. But Red Robbo, the real-life union leader with a repntation built on negotiating piece rates, could bring Leyland to a halt.

In the bad old days, salaried work was very different. You were expected to do the job for a fixed monthly sum, however hard the work proved to be and however long it took. Performance was relevant to salary only when it led to promotion. Yon did not imagine that you could negotiate your pay.

A salaried joh was a mark of status – it meant that you could be trusted to monitor your own *performance*. Yon tipped hotel porters, but not your doctor. If yon sent the latter a bottle of whisky at Christmas, it was a genuine expression of gratitude, not as an incentive to keep yon well. When the board of a bank or railway company occasionally voted a bonns for a senior manager, they only emphasised the difference in social standing between an executive and a director.

But the bad old days have gone. No progressive company today has piece rates for its low-paid employees; their pay reflects grade and seniority. If there are bonuses, they are based on the performance of the company as a whole. Team working is preferred to assembly-line production. Piece rates are for sweat shops.

Things have changed for the middle classes, too. Many people in the City now expect to earn most of their remuneration from bonuses. Only the most old-fashioned of companies is withoot long-term incentive schemes for senior managers. Doctors, teachers and civil servants are all having to come to terms with performance-related pay.

A strange inversion, this. Why is what is no longer sauce for the goose now sauce for the gander? The same consultants who once followed workers around the factory with stopwatches now specialise in incentive schemes for company executives. Part of the explanation is that some of the truly awful jobs in society are now middle class rather than working class. The old theory was that employment on a car assemhly line was so unrewarding in any but financial terms that the only way to persuade someone to do it was to remind them about the money every minnte of their day.

Piece work absorbed time and generated acrimony in increasingly fraught negotiations

The distance between inserting the rivet and seeing the wheels of the car go round was just too great. We know now that the right answer to this dilemma is to reshape the job so that everyone who is engaged in assembly feels associated with the final product.

We cannot do this for the eurobond trader, however. The connection between his activities and the wheels of industry and commerce is remote, if indeed it exists at all. There is nothing for it hut to stress the money. But this does not apply to senior executives. *Running a large company is an* important job and, for those who do it effectively, an immensely satisfying one.

If a firm tells you it needs performance bonuses *to stop* its managing director from shirking on the job, you know that it is a bad company with the wrong chief executive. The notion that enormous bonuses are necessary to motivate such people is insnlting to them and to ordinary people who work hard and long for these firms withont any prospect of equivalent remuneration.

The same is true of doctors, teachers, and civil servants. Anyone in these professions who does not feel well rewarded by a job well done is not the sort of person who should be doing it. These explanations offered for these performance-related bonuses are subterfuges. Those who fix executive remuneration are sometimes asked why it is necessary to pay someone the best part of £1m per year to do the job. They can respond that earning £1m depends on meeting demanding performance targets.

You will notice that this is not an answer to the question, but it delays and obfuscates. And the rationale for performance-related pay for civil servants and academics has equally nothing to do with the need to reward performance. Performance has always been rewarded by earnestly sought promotions. It is to make it easier to pay more to tax inspectors and accountancy professors, who are in demand in the better paying private sector, without paying more to benefit clerks and philosophy teachers, who are not.

There is no morality, equity or justice in this; hnt there is a rule of the market that says this is what you must do if yon want your taxes collected and yon think that future generations should know their profit and loss account from their balance sheet.

But when we have cut through the humbug, we need to remind ourselves why piece work went ont of fashion for low-paid employees. It eroded commitment to the organisation; it encouraged people to focus on targets rather than broader based, and more relevant, objectives; it gave them incentives to promote low expectations about what might be Maybe some of these things also apply to performance-related pay for the salaried.

COMMERCIAL PROPERTY

CONTRACTS & TENDERS

ARTS

Stonehenge: English Heritage's most valuable property, bringing in £1.4m a year in revenue from admissions

Stonehenge – back to the future

English Heritage and the National Trust are launching a joint bid to transform the ancient monument, writes Antony Thorncroft

A £65m radical plan for Stonehenge, the UK's most important and controversial heritage site, was unveiled to the commissioners of English Heritage *yesterday* by their chairman, Sir Jocelyn Stevens. It involves a joint bid with the National Trust to the Millennium Commission *for half the cost of the* project, with the remainder coming from business through the Private Finance Initiative.

*Sir Jocelyn has been strug*gling with Stonehenge, English Heritage's most visited property, since he took over the quango in 1992.

"As a world site it is pathetic," he freely admits, going on to catalogue the deficiencies *of the parking*, the portable loos, and the catering. If he can keep the National Trust, the local authorities and the Millennium *Commission* on side, all this could be change by 2000.

The 4,000 acre World Heritage Site will be re-packaged as the Millennium Park.

The plans is that visitors will be able to safely wander, viewing 400 registered monuments, and a re-created Woodhenge, an adjacent site which was built even earlier than Stonehenge, the stone circles of which are now believed to have been erected around 2000 BC. The Park will be funded with £32.5m of lottery revenue advanced by the Millennium *Commission if it approves the* scheme.

Companies, through the Private Finance Initiative, will be *responsible for the new visitor* centre, which will include the "Stonehenge Experience", a high tech, virtual reality, tour *of the site*, ideal for the less venturesome; an exhibition about the building of Stonehenge; and an information centre acting as a tourist gateway to Wessex.

English Heritage is seeking a consortium *of* companies with experience of the leisure industry to put up £32.5m to construct and run the visitors' centre, *which will cover 8,000* square metres and have a car park with 3,000 spaces.

The successful bidder can expect at least 1.8m visitors a year, as against the current 1m, each contributing up to £10, under a "pay-as-you-leave" system. The consortium will contract out the retail outlets and catering.

Sir Jocelyn is unmoved at the thought of McDonalds gaining the restaurant franchise on the site. "Why should traditionalists throw their hands up in the air and say 'we would not have that'. We are always being accused of keeping everything cobwebby and confined in aspic. I want this to be the best visitor centre in the world."

The centre will be two kilometres from Stonehenge. A monorail will take visitors to *within 500 metres of the site* where they will be allowed to walk up to, and mingle, with the stones, a closeness of contact which has not been possible for 30 years.

Sir Jocelyn has accepted defeat in one area, at least until the next century. His proposal to have the main road to the west, the A303, which passes very close to Stonehenge, re-routed in a tunnel under the site, ran up against ministry of transport, and Treasury, opposition.

The cost of £250m was regarded as prohibitive. He does, however, expect a minor road, the A344, to be grassed over.

Stonehenge is English Heritage's most valuable property, bringing in £1.4m a year in revenue from admissions. If the Stonehenge Millennium Scheme *is approved it can* expect a much higher revenue. Earned income is vital to English Heritage, which is suffering annual cuts in its government grant, reduced to £103m for 1996-97.

Sir Jocelyn has spent much of his time as chairman dealing with Stonehenge. His achievement so far is in getting the local authorities and local interest groups, archaeologists, and the National Trust, which owns nearly half the site, to co operate. He has even got the support of the Druids, who are particularly interested in the plans to re-create Woodhenge.

There are now tight deadlines to be met. The pre-qualification *information* pack *is* freely available from today to potential participants in the scheme, who must show an *interest by early August*.

Sir Jocelyn said yesterday that there had already been four informal applications. By the time the Millennium bid goes in, early in November, English Heritage will have *whittled the candidates down* to two.

The Millennium Commission *is likely to look with favour on the bid*. The importance of the site makes it an ideal candidate and the 50 per cent partnership money needed to secure lottery funding will be supplied by the Private Finance Initiative.

If all goes according to plan work on the visitors' centre should start next year.

"I love the idea of getting the *private sector involved and* the two track approach," said Sir Jocelyn.

The fortuitous arrival of the lottery, and the Millennium Commission, provide a once and for all opportunity to transform the UK's most celebrated ancient monument at no cost to the government and the taxpayer.

Sir Jocelyn is not afraid of the crowds, or the criticism that the past is being diluted into a casual leisure amusement. "*Tourism* will become the world's biggest industry. We must accept the fact".

He hopes that at last visitors *to Stonehenge* will get a better deal in the future than they have experienced in recent years.

Jazz/Garry Booth

Frisell opens his box of tricks

Reticent and awkward, Bill Frisell is the most unlikely guitar hero. Yet the American's music, itself recondite and unassuming, has a loyal following. On Wednesday night, London's entire "muso" fraternity coalesced at the Queen Elizabeth Hall to hear the UK debut of the latest vehicle for Frisell's singular *form* of impressionistic chamber jazz, Quartet.

Musically, we are in familiar Frisell territory: happy/sad soundtracks for silent movies, gentle jokes which echo Gary Larsen's Far Side cartoons and nuggets of country and western themes arranged in a quietly crazy collage of sound. But the unorthodox instrumentation and concentrated interplay of the group is a new development.

Trumpet (Ron Miles), trombone (Curtis Fowlkes) and violin (Eyvind Kang) all have an equal share in the arrangements, each occasionally bursting out of the ensemble playing: trombone flares are replaced by droning violin; trumpet arpeggios give way to wistful guitar pickings coloured by Frisell's box of electronic tricks.

The lack of conventional rhythm section and a bias towards brass in the sound balance vents Frisell's predilection for Copland and Ives. But the new group's repertoire is characteristically Frisellian: he opened with a palimpsest of *The Rain In Spain* and closed with two Burt Bacharach hits, *On A Clear Day* and *Say A Little Prayer*.

In between, the Frisell original *In Deep* deferred frequently to the mouldy oldie, *Deep In The Heart of Texas*. It ought to be funny but instead the group's improvised interpretation of these unlikely numbers is so affectionate as to be disarming. Much like the man himself.

A tentative, "Should I tell you anything about this music?" brought shouts of approval. "Well, we call it sad-core . . ." was all the explanation he could manage.

Theatre/Simon Reade

Emma shows her clever conceit

Emma is the latest novel to cash in on drama, inching Jane Austen ahead of the Brontës, Dickens, Tolstoy and Hardy put together. Islington's King's Head pub theatre presents a scratch dramatisation in advance of an American film and a television serialisation.

Michael Fry, *Emma*'s director and adaptor in this low-budget theatre version, encases the novel as a private theatrical amongst a group of Georgian youngsters, playing on the cusp of adulthood in a tatty attic. It is a clever conceit. Jane Austen is known to have performed plays with her family, and her juvenilia includes a number of short acts, even a germ of a musical (*Enter Chloe* and a *Chorus of Ploughboys*). Performing *Lovers Vows* also features in the dramatic turn of events in *Mansfield Park*.

The framing device is quickly established. And as quickly abandoned. After some cursory aligning of his characters with their respective Austen roles, the *frisson* of inter-action is forgotten. All we get is a potted *Emma*. And although the dialogue is supplemented by Austen's own ironic narrative, the opportunity to assign the knowing authorial voice consistently and significantly to a specific character in a particular moment, is not taken.

However, once we have overcome our disappointment in this failure of promise, there is much enjoyment to be had from the five lively, confident performers. In particular Clara Salaman's Emma, sometimes a giggling girl, sometimes a worldly woman, is wily, scheming, self-satisfied, insolent in her wit – with all the right measure of an Austen maestro. She is deliciously incredulous when screwing up her face in anguished humiliation at having her self-delusion revealed. It is a moving piece of acting, charting Emma's attempts to engineer the love-matching of Harriet Smith to a young farmer, or to sparky Frank Churchill, or to gorgeous Mr Knightley, while unconsciously using Harriet as a decoy for her own affections. (Katherine Fry's Harriet is a super study in gormless elation and dashed hopes.)

Deliciously incredulous: Clara Salaman as Emma

The production is deliberately rough at the edges, which contributes to its charm. It is less appealing when it tries to be polished. Like Emma it has "a disposition to think a little too well" of itself, offering a few lame visual jokes. For example, five moth-eaten teddy bears representing five children are rummaged out of a toybox, with a smirking self-congratulation.

Austen herself once offered a better, simpler, self-conscious theatricality. This is the opening to *The Mystery*, Act I Scene i: "Enter Corydon. *Corydon*: But hush! I am interrupted. Exit Corydon". Jane Austen, dramatist: a comic genius.

At the Kings Head Islington until August 11 (0171 226 1916).

Concert/Stephen Pettitt

International Songmakers

Fresh from her vocal triumph as Lulu at Glyndebourne, the soprano Christine Schäfer joined the mezzo Stella Doufexis and the young Icelandic baritone Finnur Bjarnason at the Wigmore Hall as the International Songmakers for Graham Johnson's latest brainwave – a programme devoted to first and last songs by composers from Beethoven to Shostakovich.

Unsurprisingly many composers write their most centred music at either end of their careers. The eager young want to pour their teeming ideas into their first efforts.

Some, like the 11-year-old Mendelssohn in his adventurous and unpublished first song, *Der Verlassene*, or the 15-year-old Schubert in *Der Jüngling am Bache*, show amazingly mature first thoughts.

But the skittishness of Debussy's wittily necrophiliac *Coquetterie Posthume* (written at the ripe old age of 21, and a telling contrast to the 14-year-old Hahn's archly romantic *Si mes vers avaient des ailes*), was rare. Schäfer gladly seized her opportunity.

At the other end of his life, in the Michelangelo setting Bessmertye (Immortality), Shostakovich expresses a sense of coming full circle, his task completed, his innocence, expressed in an unregretfully nostalgic childlike piano postlude, regained.

Bjarnason sang this work thoughtfully enough, though with insufficient resonance – that will come in a year or two.

But Poulenc's last song, *Lune d'Avril* (Schäfer) looks forward to a fantastic, idyllic world beyond. For him death will be no end.

After the interval, the Songmakers concentrated on Berg's earliest songs, for which Schäfer, who sang most of them, was in particularly shining, warm voice, showing much delicacy in *Traumgekrönt* with its exposed final leap, and a touching poise in *Im Zimmer*.

By contrast, Berg made Doufexis sound insecure in intonation and took the earlier ripeness from her timbre, and Bjarnason strained to maintain a tonal consistency.

However, the rich, condensed expression of this music, some pieces notably more tonally adventurous than others, was immensely satisfying, and I also noticed how much it owed to Schumann.

Often the figurations of Berg's accompaniments, the rhythmic structure of his melodies, or the whole approach of a piece mirrors a specific song or gesture from the older composer's *Dichterliebe* or *Frauenliebe und Leben*.

Johnson, as always, was a responsive partner to each of his singers at the piano. His first-half narrations were as informative as usual, and peppered with the occasional startling insight, though I do have a slight problem with his unembarrassed use of epithets like "our beloved Schubert", which really belong to another age.

But the second-half readings of gushing love-letters from Berg to his wife even had cynical old me squirming in my seat.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
De Nieuwe Kerk Tel: 31-20-6268168
● Palech, een Russisch sprookje: exhibition of more than 100 lacquer miniatures, created in the 19th and 20th century in the Russian village of Palech. The works on display come from the Museum for Decorative Arts in Moscow, the Museum of Palech and the Ritman collection; to Sep 22

ATLANTA

Pop music
The Fox Theatre Tel: 1-404-881-2000/892 5685
● Luther Vandross: performance by the American singer; 8pm; Jul 22

BERLIN

EXHIBITION
Kupferstichkabinett Tel: 49-30-26629598
● Im Kontext der Sammlung: exhibition of works that were recently added to the museum's collection. The display includes works by Picasso, Lechner, Flavin, Oppenheim and Boltanski; to Sep 29

BRUSSELS

EXHIBITION
Palais des Beaux-Arts Tel: 32-2-5078466
● Ilya Kabakov. Sur le toit: exhibition of Ilya Kabakov's installation "Sur le toit" (On the roof), created for the Palais des Beaux-Arts, in which the visitors walk on a footbridge over the roofs of an imaginary city; to Sep 8

CAPE TOWN

MUSICAL
Opera House Tel: 27-21-215470
● Jesus Christ Superstar: by Lloyd-Webber. A production by the Capab Opera, with musical direction by Charl-Johan Lingenfelder. The cast includes Glenn Swart, Paul Warwick-Griffin, Neisha-Ann Harley and Graham Clark; 8pm & 9pm; Jul 19, 20

CHICAGO

EXHIBITION
Art Institute of Chicago Tel: 1-312-4433600
● Splendors of Imperial China: Treasures from the National Palace Museum, Taipei: almost 400 works spanning four millennia have been selected for this exhibition from the collection of the National Palace Museum in Taipei. The display features nearly 100 paintings and calligraphic works, as well as more than 200 jades, bronzes, ceramics, and other decorative arts, including many of the T'ang, Sung, and Yüan masterpieces of calligraphy and painting in the museum's collection, and examples of imperial ceramic ware from the Sung through the Ch'ing periods; to Aug 25

COPENHAGEN

CONCERT
Tivoli Concert Hall Tel: 45-33 15 10 01
● Tivolis Symfoniorkester: with conductor Aksel Wellejus. Works by Beethoven, Schubert and Wagner; 9pm; Jul 23

LONDON

CONCERT
Purcell Room Tel: 44-171-9604242
● Marque Gilmore's Drum FM: interactive drum 'n' bass, with special guest soloist Graham Haynes; 8pm; Jul 20
Royal Albert Hall Tel: 44-171-5898212
● Don Carlos: by Verdi. Concert performance by the Royal Opera with conductor Bernard Haitink. Soloists include soprano Galina Gorchakova, tenor Richard Margison and mezzo-soprano Olga Borodina; 6pm; Jul 20
Wigmore Hall Tel: 44-171-9352141
● Dmitri Alexeev: the pianist performs Chopin's Barcarolle in F sharp, Op.60, Rondo in C minor, Op.1, 5 Mazurkas and 10 Waltzes; 7.30pm; Jul 20

LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art Tel: 1-213-857-6000
● Designing Modernity: The Arts of Reform and Persuasion, 1885-1945: this multi-media exhibition seeks to explore western society's response and reaction to modernisation, the dominant force following the industrial revolution and proceeding through the aftermath of the second world war. The display features nearly 285 objects including European and American paintings, sculpture, prints, furniture, metal work, ceramics, glass, books, toys and ephemera. Artists represented include William Morris, Frank Lloyd Wright, Peter Behrens, Hector Guimard, Mies van der Rohe, Marcel Breuer, Isamu Noguchi and Walter Dorwin Teague; from Jul 21 to Sep 22

MILAN

OPERA
Teatro alla Scala di Milano Tel: 39-2-72003744
● Porgy and Bess: by Gershwin. Conducted by John De Main and performed by the Opera Teatro alla Scala; 8pm; Jul 19, 20

MUNICH

EXHIBITION
Haus der Kunst Tel: 49-89-211270
● Lovis Corinth 1858-1925: Retrospective: retrospective exhibition devoted to Lovis Corinth, one of the leaders of German Impressionism. The display includes nearly 150 paintings, approximately 60 drawings and watercolours, as well as a selection of prints. After the showing in Munich the exhibition will travel to Berlin, Saint Louis and London; to Jul 21

OPERA
Nationaltheater Tel: 49-89-21851920
● Parsifal: by Wagner. Conducted by Peter Schneider and performed by the Bayerische Staatsoper. Soloists include John Bröcheler, Kari Heim, Kurt Moll and John Keyes. Part of the Münchner Opern-Festspiele; 5pm; Jul 20

NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● The Chamber Music Society of Lincoln Center: with conductor David Shifrin perform works by Copland, W. Schumann, Barber and Bernstein. Part of the Lincoln Center Festival; 7.30pm; Jul 22
Avery Fisher Hall Tel: 1-212-875-5030
● Kirov Orchestra: and the Kirov Opera Chorus with conductor Valery Gergiev perform works by Prokofiev and Shostakovich. Part of the Lincoln Center Festival; 7.30pm; Jul 22
● Mostly Mozart Orchestra: with conductor Raymond Leppard, pianist Christian Zacharias, soprano Janet Williams, violinist Nai-Yuan Hu and cellist Wendy Warner perform Mozart's Piano Trio in B flat major, K502, Piano Concerto in C major, K503 and Symphony No.38 in D major, K504 (Prague). Part of the Mostly Mozart Festival; 8pm; Jul 20
● Time Warner Concerts in the Parks: The New York Philharmonic with conductor Richard Westerfield and Chanticleer perform in Central Park, Manhattan; 8pm; Jul 22

OSLO

POP-MUSIC
Spektrum Tel: 47-22-176 810
● The Eagles: performance by the American pop group; 8pm; Jul 22

PARIS

EXHIBITION
Musée d'Art Moderne de la Ville de Paris Tel: 33-1 53 67 40 00
● Calder: exhibition devoted to the American artist Alexander Calder who worked in Paris for more than 30 years. The display, organised in collaboration with the Louisiana Museum, features more than 140 works; to Oct 6

ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Cantabile: performance by the British vocal group. The programme includes songs from the Tudor period, works by Duke Ellington, film and musical songs, and an homage to harmony groups; 9pm; Jul 22

TOKYO

EXHIBITION
National Museum of Modern Art, Tokyo Tel: 81-3-3214-2561
● The Crossing Visions: European and Modern Japanese Art: representative works from the National Museum of Western Art are exhibited alongside Japanese modern artworks; from Jul 20 to Sep 8

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WORLD SERVICE

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COMMENT & ANALYSIS

Philip Stephens

A phoney election

Tony Blair is lumbered with an election for the UK shadow cabinet, which MPs will use to air discontent with New Labour

Next week the UK Labour party will elect Tony Blair's team for government. That at least will be the presumption of the 270 opposition MPs as they cast their votes in the annual ballot for the shadow cabinet. But this will be as phoney and foolish an election as I can recall. As an act of politics, it will serve only to demonstrate how many of his parliamentary colleagues have yet to acquire the instincts of Mr Blair's New Labour.

We can be certain that the new team will not be the one that, were he given a free hand, Mr Blair would choose to join him around the real cabinet table in less than a year's time. For one thing, there will be too many of them. For another, too many of them are no good. But tell that to members of the parliamentary Labour party (PLP) as they trade votes, grudges and favours in the bars of Westminster over the next few days. In this election, as in those for the Tory leadership, malice and mendacity has a strong head start on merit.

It is not an event which will stir the voters. My guess is that most would be hard-pressed to name more than e handful of members of John Major's cabinet. Ask them to list Mr Blair's team and few would get past Gordon Brown and John Prescott. There are others who deserve higher recognition. Robin Cook, David Blunkett, Jack Straw, Donald Dewar, Mo Mowlam, and Andrew Smith spring to mind. But do not bother mentioning Tom Clark, Michael Meacher or David Clarke. In a world of grey politics, people pay no heed to grey politicians.

Next week's poll matters only because of the obscure provision in the parliamentary party's rulebook which obliges Mr Blair to take the elected shadow cabinet into government if he defeats John Major next spring. In theory, be could sack them after a day, even after an hour. Once in office a Labour prime minister, like his Conservative counterpart, has a free hand. But, in the minds of the candidates, to win enough votes next week is to attach a large reserved sticker to a plush Whitehall limo and to e red leather ministerial box.

Mr Blair would have preferred to abandon this tribal ritual. His allies argued that campaigning within the PLP would deflect the party's fire from the government. The inevitable flare-ups among rival candidates would provida ammunition for the Conservatives. It would also give Old Labour the chance to take revenge on Harriet Harman, the health spokeswoman. Mr Blair defended Ms Harman'a decision earlier this year to send one of her children to a "Tory" grammar school. Others in his party are not so tolerant.

For once, the Labour leader has retreated. The PLP, barely touched by the Blair revolution, is the last bastion of Old Lebour. There are few out-and-out Trotskyists. But the machine politicians who travel to Westminster from the party'a traditional bases in England'a inner cities and from either side of the Scottish border are deeply suspicious of the lesder's middle class accent and presidential style. As one shadow cabinet member remarked this week, *Old Labour MPs do not speak* easily of their party's conversion to the market economy or of Mr Blair's willingness to condemn the striking train drivers who yeaterday brought London's underground rail network to a standstill. But they were sidelined in the debate over the scrapping of the party's Clause 4 commitment to state ownership and in the subsequent rewriting of the manifesto. Their rather pathetic revenge has been to twice withhold backing from Mr Blair's candidates for the top jobs. Outright rebellion was threatened if they were denied the opportunity to do so again this year.

The parliamentary Labour party is the only section of the party which is still capable of destroying Labour's chance of winning the general election

This system is almost as ancient as the original Clause 4. The PLP has elected the shadow cabinet since 1923. Hugb Gaitskell considered scrapping the poll more than 35 years ago but decided against a confrontation. Since then the MPs have steadily tightened their grip.

Back in the 1960s they chose 12 members of the shadow cabinet, leaving some leeway for the appointment of talented colleagues. Now the PLP votes for 19, including a minimum of four women. Add to those the leader, deputy leader, the chief whip and two senior apokesmen in tha House of Lords and the 23 seats around the cabinet table are more than filled. And that *takes no account of Jack Cunningham* and Andrew Smith, wbo both hold cabinet-ranking portfolios.

Forced to hold the elections, Mr Blair has sought to neutralise their impact. The poll has been brought forward to the autumn to minimise the period of campaigning. Rising stars like Brian Wilson and Alistair Darling decided last year they would never persuade enough of their backbench colleagues to base their jndgment on performance rather than prejudice.

Other New Labour aspirants have been quietly told by Mr Blair's office to join them in standing aside this year. Tessa Jowell, Henry McLeish and Jeff Rooker will have to wait a little longer. The existing shadow cabinet is pledged to back the status quo. The only change sought is the replacement of the retiring Joan Lestor by Mr Cunningham.

But others are standing, and Ms Harman'a fate is uncertain. Many of those campaigning for her at Mr Blair's behest are doing so only from a sense of duty. Her telegenic qualities are more admired thet her grasp of policy. Mr Harman'a epproach to the health portfolio has been to do little slowly. But if she is ousted, Mr Blair will reappoint her. He needs colleagues who do what they ara told.

Either way, the elections are delivering some interesting, often contradictory messages. Above all, they illuminate the extent to which New Labour has been Mr Blair'a project and Mr Blair'a triumph.

He has had support. When the history is written Messrs Brown and Blunkett will be accorded central roles. And there are a dozen more in less exalted positions who are instinctive modernisers. But from the rump of the PLP be has secured acquiescance rather than enthusiasm.

Mr Blair thinks thet the new intake of MPs after the election will bridge that divide. Many more will be *drawn from the ranks* of the modernisers. There has been a trade-off also in tha decision to avoid a fight over the shadow cabinet. The PLP may soon discover that the price it has paid is a mucb tighter code of discipline.

As to the composition of his first cabinet, I suspect Mr Blair would be constrained only by the size of his parliamentary majority. If he won well, I would be astounded (and horrified) if Mr Blair gave precedence to the arcane rules of the PLP. Several of those elected next week would have to be satisfied with a smaller limo and a rather less weighty red box. The PLP may kid itself that the world has not changed. It has.

LETTERS TO THE EDITOR

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Stretching the clear limitations of Keynesian economics may backfire on Japan

From Mr Russell Jones.

Sir, Gerard Baker's analysis of Japan's fiscal difficulties ("Japan ready to put financial house in order", July 16) was stimulating, but I fear too complacent. Perhaps he has been listening too much to the US government and its disciples, who, not for the first time in the past 10 years are encouraging Japan to commit itself to the wrong (macro) economic policy at the wrong time. A number of points are worth noting:

● The general government budget definition referred to by Mr Baker fails to capture the full extent of the deterioration in Japan's public finances. The public-sector financial balance, which extends to the public enterprises and includes more of the expenditure undertaken under Japan's second budget or Fiscal Investment and Loan Programme, was in deficit to the tune of more than 8 per cent of gross domestic product in the third quarter of 1995.

● Japan's gross government debt ratio is rising rapidly towards 100 per cent of GDP. Only four other OECD nations have higher ratios: Canada, Greece, Italy and Belgium.

● Would that fiscal consolidation was as easily as Mr Baker suggests. However, despite Japan's supposed automatic fiscal stabilisers, the last time the budget deficit blew out in the late 1970s it took eight years of consistently rapid growth and draconian expenditure restraint to eradicate the shortfall. The structural balance (OECD definition) took a similar period to move back to balance.

● In contrast to most OECD economies, the political dynamic of fiscal policy in Japan is still expansionary. There is every chance that the fiscal consolidation pre-programmed for the next nine months will be heavily diluted. Not only could we see another autumn supplementary budget, but an income tax rebate may well be extended for another year and the government may announce exceptions to the planned consumption tax hike. In the meantime, Japan lacks anything resembling a coherent medium-term plan for the public finances.

● In the context of the OECD's most rapidly ageing population structure, early fiscal consolidation and reform would generate huge benefits for the country's long term debt dynamics.

Japan's fiscal activism of recent years has been laudable, but there are clear limitations to Keynesian economics, particularly of the more unreconstructed kind. Seeking to stretch these limits may backfire if the financial markets take fright. Fiscal procrastination is a dangerous course which could leave Japan in the worst of all possible worlds, suffering the deflationary effects of a half-hearted fiscal tightening, a surge in long-term interest rates, and a less than independent Bank of Japan having to salvage policy credibility by tightening monetary policy aggressively.

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Tokyo 107, Japan

Economy rich and vibrant

From Mr Patrick O'Brien.

Sir, It is heartening that Stephanie Flanders' research shows voters are not primarily influenced by selfish calculations of self-interest when electing governments because they realise that a vibrant economy is better than high unemployment (Economic Notebook, July 8).

Ms Flanders has missed what voters realise and the example of the US proves – that a wide range of income levels increases employment. The US has the lowest unemployment in the world because the rich employ the poor. Who else will? In an egalitarian economy do-it-yourself is inevitable because no one wants to spend their hard-earned cash on hiring others and without the rich all fashion and other luxury industries wither also.

Patrick O'Brien,
2 Evening Glade,
Ferndown, Dorset, UK

Financial inflexibility of a single currency

From Mr Stephen Lange Ranzini.

Sir, The experience of eastern bloc countries shows Emu's architects "have designed a disaster", writes Brian Reading (In the Pink: "Caught up in currency calamity", July 13/14). Bravo for Brian Reading! I was always amazed at the lack of attention paid to the fact that Emu would be a financial disaster for Europe. It is obvious that the intelligentsia in Europe haven't read Dr Jane Jacobs' fine book *Cities and the Wealth of Nations*. Perhaps Europeans don't read even the better Canadian authors? In the latter part of her book, Dr Jacobs provides an eloquent statement of the usefulness for each leading city region in the world in having its own currency.

A country which has its own currency can adjust more quickly to financial setbacks. One only has to look at the US where there are many regional Federal Reserve banks, but just one currency, to see how Texas was hurt in the mid-1980s. Nine of the top ten banks collapsed, and real estate prices followed. If it were Japan, interest rates would have dropped to 0.5 per cent, the banks would have recovered and the economy would have bounced back in five years, and not 10. If Japan shared the same currency as Europe, interest rates would have stayed high and all of its banks would have long since collapsed.

With the advent of computers, financial electronic document interchange and multi-currency option loan facilities is there really still as great a need for a universal currency despite these powerful drawbacks?

Stephen Lange Ranzini,
959 Maiden Lane,
Ann Arbor MI48105, US

From Mr M.J. Cheetham.

Sir, Mr Peter Clark (Letters, July 13/14) complained about the lack of public discussion on the contention that a European single currency would be inoperable without a federal government, and asked if there was some conspiracy to suppress this.

Curiously absent, in addition, seems to be informed debate as to what action would have to be taken by an Emu country that experiences, after joining, conditions which would, hitherto, have resulted in a currency devaluation.

The only reference I have seen to this was an article by Barry Riley ("The last days of the D-mark", March 16) which implied that the only remedy under these circumstances would be to reduce rates of pay!

The implications of this could be so important that the lack of comment appears to support the suggestion made by Mr Clark.

M.J. Cheetham,
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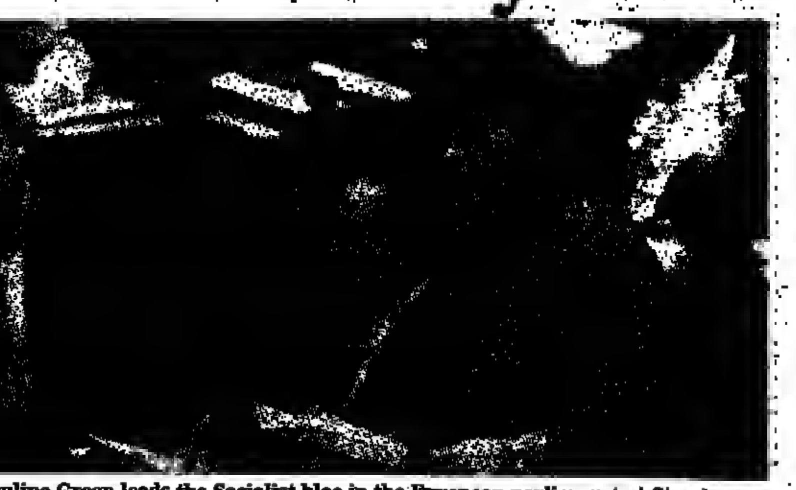
Europa · Werner Hoyer

A vote for a uniform system

The mix of national balloting methods should be harmonised for European elections



Winner takes all: Pauline Green leads the Socialist bloc in the European parliament at Strasbourg

One of the objectives of the Treaty of Rome was that general, direct elections should be conducted in accordance with a uniform procedure in all member states. Yet all efforts in the 40-year interim to comply with this clear mandate have been to no avail.

The dichotomy between the national traditions which range from winner-takes-all to proportional representation methods is an obstacle to consensus. The UK sticks to its first-past-the-post system based on electing a single member in each constituency, while all the other 14 members allocate their seats proportionate to the number of votes polled by each party, at least where European elections are concerned.

The absence of uniformity is one of the main obstacles to the emergence of a public that thinks of itself as European. Indeed, it casts doubt on the democratic legitimacy of the European parliament. The swing of votes in the UK, the only member of the EU to use the direct voting method, has a marked impact on the strengths of the various alliances in the European parliament as a whole.

In the July 1994 European elections, for instance, the UK Labour party polled only 2.6m votes more than the UK Conservatives, but that gave Labour a 44-seat advantage. Labour had 63 seats, the Conservatives 19. That is exactly the difference between the two largest groups in the European parliament, the European Socialists, which obtained 217 seats and includes UK Labour party MEPs, and the European People's party, which took 173 and includes the Tories.

This means 2.6m UK voters gave the largest alliance in Strasbourg a lead of 44 seats – 60,200 votes per seat. In order to gain such a lead of 44 seats a German party in the European elections would have to attract upwards of 12.5m votes more than its nearest rival. And even if the turnout in Germany (60 per cent) were as low as in the UK (36 per cent), the number of votes needed to gain that 44-seat lead would still be 7.7m – three times as many as in the UK.

Such blatant disproportionate representation of electors' intentions can no longer be defended on the grounds that the voting traditions of member states have to be respected.

It is precisely when exercising our democratic rights that we need clarity. And one of the reasons why people doubt the European parliament's democratic legitimacy is that its composition is not seen to reflect actual voting patterns within the EU. There will be considerable frustration among those voters most committed to the EU in the other 14 member countries when they realise that the difference in alliance strengths depends solely on the size of the swing in the UK. People cannot be expected to accept this situation. We must therefore adopt a uniform procedure.

Which one? Where the multinational European parliament is concerned the proportional system is better than first-past-the-post for two reasons.

First, as a general rule proportionality means fairer representation, while the winner-takes-all method has the advantage of producing clear majorities. However, in the EU the sum of 15 national election results using the direct voting system would not produce any clear majorities.

Second, the European parliament does not act like a national parliament, where there is a majority supporting the government and an opposition whose strength depends on the election results. In Strasbourg all major legislative decisions have to be carried by an absolute majority, and this is only possible through consensus among the parliamentary groups. Thus, representation of the main political currents in the EU is far more important than an electoral system designed to produce a clear majority.

In spite of my clear preference for proportional representation, I believe we should try to make allowance for the constitutional traditions of member states to the extent that they are consistent with a uniform arrangement. Several ways of achieving this are under discussion: gradual progress towards uniformity; treaty-based criteria for a different procedure; or e flexible procedure, at least in several member states. I believe the treaty-based criteria would be the best solution.

The European parliament came up with a sensible approach in 1993 which leaves plenty of room for national variations. The resolution recommends criteria for European elections which, while ensuring uniformity of procedures, at the same time leave member states considerable latitude in their application. I share the European parliament's view that after various abortive attempts over the past 40 years the time has come for the governments of member states to adopt two basic principles.

The first is that the distribution of seats for the election of members of the European parliament should be determined in accordance with a system of proportional representation, taking account of the votes cast throughout the member state. This can be achieved through voting for lists drawn up either for the whole territory of a member state or for regions or multi-member constituencies.

The second is that member states should be allowed to make partial use of the first-past-the-post system but no more than two-thirds of the seats assigned to them may be distributed in those constituencies. The remainder could be distributed by means of lists in such a way as to ensure that the distribution of all the seats of the member state concerned corresponds to the proportions of the total votes cast.

If both of these principles were adopted they would ensure sufficient uniformity but be flexible enough to permit national variants. Examples would be the use of minimum vote thresholds below which parties cannot win seats; the use of a preferential voting system where elections are based on regional lists; and the allocation of some of the seats via a supplementary list for the entire EU.

Such a procedure would leave member states a considerable amount of freedom, but the crucial point is that after all this time we must have a uniform electoral procedure to which all member states are bound. That is how the European parliament could best comply with the political will of the member nations. After 40 years, therefore, let the Intergovernmental Conference pave the way for a uniform electoral procedure in Europe.

The author is minister of state at the German Federal Foreign Office and a member of the Bundestag

COMMENT & ANALYSIS

FINANCIAL TIMES

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Friday July 19 1996

Inscrutable Mr Greenspan

Mr Alan Greenspan, recently reconfirmed in his third term as chairman of the Federal Reserve, exerts an extraordinary influence over financial markets. Part of his method is never to be too predictable or transparent. Yesterday's semi-annual Humphrey-Hawkins testimony before the Senate banking committee was no exception. Yet it did contain a warning about inflation, which was enough to cheer bond markets up.

Mr Greenspan remarked that the favourable inflation climate just might be coming to an end. He also indicated that the Federal Reserve was prepared to act pre-emptively to forestall a rise in inflation. But it would be wrong to conclude that Mr Greenspan is aligning himself with the analysts who worry about inflation. Still less is he necessarily signalling an imminent rise in short-term interest rates. The Federal Reserve's forecasts of low inflation and growth would seem inconsistent with that interpretation.

The bond markets themselves have been in the camp of the inflation-worriers since the turn of the year. Thai yield on 30-year bonds has risen by one percentage point, from 6 to over 7 per cent, since January, a rise that should itself exert a contractionary effect on the economy.

Since the Clinton administration has predicted that the budget deficit will fall to $117bn (£75bn) in 1996, equivalent to 1.6 per cent of gross domestic product, only fear of inflation would seem to justify this rise in long-term interest rates. Yesterday, Mr Greenspan showed the bond markets that he understood their anxiety – and thereby allayed it. Long-term rates promptly fell below 7 per cent.

The question is whether the anxiety is justified.

By historical standards, the labour market is unquestionably stretched: the unemployment rate is 5.3 per cent; and 10m new jobs have been created over the past four years. Yet inflationary pressure is difficult to find: consumer price inflation has been running at between 2 and 3 per cent a year for most of the past five years; workers have accepted stagnant real earnings throughout the 1990s; and, on a trade-weighted basis, the dollar has recovered what it lost in early 1995.

The judgment is a fine one. This is a testimony to the Federal Reserve's success in balancing demand along the trend rate of economic growth. If the economy were obviously adrift, decisions would be easier. But markets expect Mr Greenspan's Federal Reserve to continue to get such difficult decisions right.

The old Japan

Struggling through its worst postwar crisis took Japan into deep, uncharted waters. For a time it looked as though little, if any, of the vaunted Japanese model that had served the country so well would emerge unscathed. Yet, as today's survey in the FT shows, the painful four-year voyage has brought the population to a place uncannily similar to the one it left behind.

Relief at the resumption of economic growth is palpable and widespread. To many, the dangers are past. Politicians and bureaucrats still talk of the need for deregulation. But any impetus behind anything other than piecemeal reform has faded.

Should the world – and the Japanese themselves – be concerned at this renewed apathy? The answer is yes, for two reasons. First, although the recession has achieved a dramatic correction in the Japanese trade accounts, the revival of Japanese exports in the past year already shows signs of slowing the decline in the surplus. In the absence of broader domestic liberalisation to encourage imports, in a few years Japan could again find itself in acrimonious disputes with the US and other countries.

The second reason why apathy is misplaced is more fundamental. In Japan's rapidly ageing society, most accept living standards in future are not going to increase as rapidly as before. But few are aware how difficult it will be to produce more than a negligible rise in per capita living standards.

At recent, meagre rates of productivity growth, income per head might soon start to decline as the working age population declines. A report prepared for the prime minister last year estimated that, with extensive deregulation to boost productivity, growth would average around 3 per cent in future. Without it, growth would be 1.75 per cent. Most private economists consider even these figures over-optimistic.

Vested interests in regulated industries and in the relevant ministries are, rightly, singled out as a constant barrier to change. Yet the public is also ambivalent towards loosening up the economy. The same newspapers, for example, that are forever demanding an end to the nanny state will almost certainly be calling for even tougher health and safety regulations in response to this week's shocking food poisoning scandal.

Ultimately, the Japanese system cannot change until the Japanese change. Having enjoyed the benefits of the retailing revolution of recent years, the younger generation is likely to be more assertive as consumers. As workers, the young are also slightly less risk averse than their parents, often looking for their pay to rise in line with merit rather than age and showing greater willingness to change companies if they do not get what they want.

Ultimately, it is today's young who stand to gain most from reform: not least, fiscal reform to reduce the burden of the public pension system, which could otherwise put a huge burden on pay packets in years to come. The worry must be, however, that the very rise in the numbers of elderly that gives rise to the need for reform will strengthen the opposition to it.

As many suspected it would, the Japanese model, built on the values of consensus and conservatism, has lived to fight another day. But its biggest challenge – to find ways to allow society to age gracefully and prosperously – lies ahead.

An iron fist

The appointment of General Igor Rodionov as Russia's defence minister should dispel the illusions of anyone who believed that the re-election of President Boris Yeltsin, with General Alexander Lebed at his side, marked a straightforward success for liberal values over the brutish authoritarianism of the Soviet past.

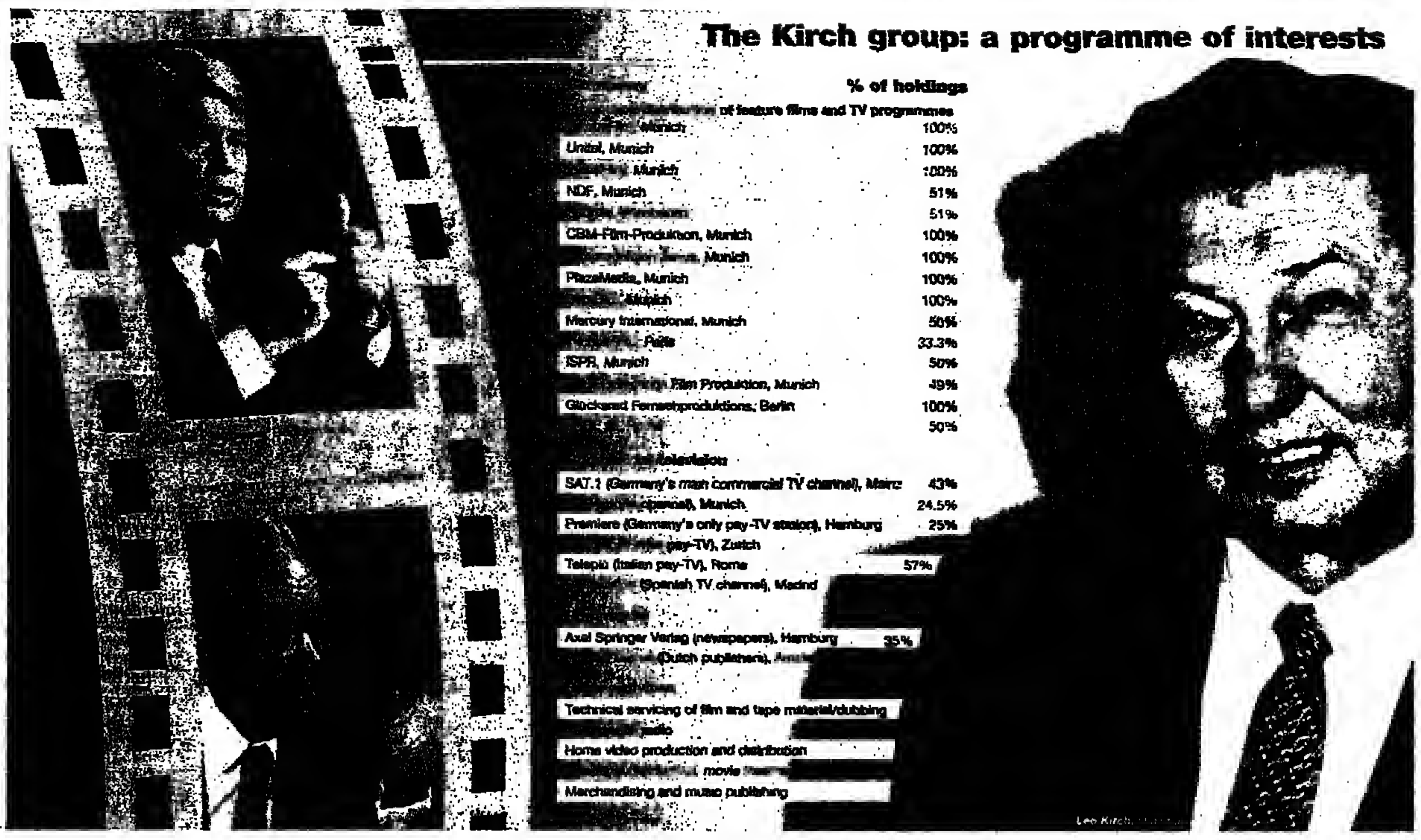
In fact, there can be few figures in Moscow who epitomise that past so clearly. A few years ago, tha use by troops under Gen Rodionov's command of poison gas and sharpened spades against unarmed Georgian demonstrators was held up by Russia's democrats as proof of the old regime's incorrigible turpitude. For the anti-communist coalition which Mr Yeltsin led to victory, the tragedy of Tbilisi in April 1989 was a sign that Lenin's heirs had forfeited their moral right to rule – either in Georgia or Russia.

Since then, it seems, the centre of gravity in Russia's debates has shifted so dramatically in favour of authoritarianism that a general who symbolises the "iron fist" can be promoted without much fear of objection from liberals. If Gen Rodionov is still a controversial figure, it is not so much because of his record in Tbilisi as because of his tough line on corruption in the military.

In part at least, the re-emergence of Soviet-era hardliners has been made possible by the undeniable fact that following the Union's collapse, outrages and blood-letting on a vastly bigger scale than the April 1989 killings took place in both Georgia and Russia. To many former Soviet citizens, it now seems that the ethnic hatreds and criminal violence which has wracked their fallen superpower is the result not of excessive state power, but of the very opposite – a collapse of all authority, leaving a vacuum which ruthless warlords and mobsters can exploit.

This in turn explains the attraction that figures like Gen Lebed and Gen Rodionov can exert when they present themselves as the men best qualified to restore order and respect for the state. To judge by his recent pronouncements, the new defence minister will begin this process by moving to stamp out the graft which became endemic in the armed forces under his predecessor, General Pavel Grachev.

The western world will watch this process with understandable scepticism. However, if Gen Rodionov is serious about wanting a strong, reformed army, as opposed to buying off venal generals, the first thing he must do is end the blood-letting in Chechnya, which is after all, the stated aim of his close ally Gen Lebed.



A jump up the television ratings

The broadcasting alliance with Murdoch has made Kirch one of the most powerful media groups in Europe, says Judy Dempsey

Mr Leo Kirch, the Munich-based media mogul, is this week putting the final touches to an agreement to buy the distribution rights to a package of films from Warner Brothers, the US producers.

The deal could not have come at a more auspicious time. Barring unforeseen developments, Mr Kirch's group will launch DF1, Germany's first digital pay-television station, on July 28 at the Hockenheimring Formula 1 Grand Prix track near Heidelberg.

With plans for 17 channels at first and up to 200 later, the group's acquisition of the Warner material will supplement its already bulging library of entertainment material.

The launch of DF1 in partnership with BSkyB, the UK satellite channel partly owned by Mr Rupert Murdoch, is likely to mark a decisive victory for Mr Kirch in the battle with Bertelsmann, his great rival, to launch a digital broadcasting service. It will also confirm Kirch's status as one of the most powerful media groups in Europe.

Until quite recently, it seemed likely that the prize of launching Germany's first digital television service would go to Bertelsmann. Last March the German entertainments group formed an alliance with BSkyB to provide programming and market the new service in Germany.

The deal collapsed in June, however, after BSkyB decided that Bertelsmann's digital television technology, marketing and distribution network were not ready for an early launch. BSkyB switched sides and joined DF1.

"You can see the potential of such an alliance," says Mr Tom Hall, European media analyst at Deutsche Morgan Grenfell, the investment bank. "BSkyB will get access to Germany which, with its 33m households, is one of the largest television markets in Europe. Kirch will get the wealth of experience of BSkyB gained through making pay-television in Britain a success."

But there is much more to the deal. In return for giving BSkyB a 49 per cent stake in DF1, the Kirch group will be able to draw on the strength of Mr Murdoch's empire – necessary with start-up costs for launching the service likely to be DM1bn and heavy losses expected in the short term.

"We know the first few years will be tough," says Mr Gottfried Zmeck, managing director of DF1 and Mr Kirch's right-hand man. Mr Zmeck expects to win 200,000 subscribers for DF1 this year and the aim is to reach 3m subscribers by the turn of the century – when the station would break even. "It is realistic and achievable," says Mr Zmeck.

However, Germana have so far been been reluctant to subscribe to pay-television, as Mr Zmeck admits. Kirch has learnt this through its stake in Premiere, Germany'a only pay-television channel, which is jointly owned with Bertelsmann and Canal Plus, the French subscription television network.

Launched in 1989, Premiere still has only 1m subscribers. Analysts say Germans are unlikely to sign up in greater numbers so long as they have 30 free commercial and public service channels available. They already pay a monthly DM23.60 (£10.26) licence fee to support ARD and ZDF, Germany's two state-owned television stations.

Mr Zmeck believes the way to make a success of pay-television is aggressive marketing and an attractive package of programmes. in launching DF1, Kirch plans to spend more than DM30m this year on a blanket advertising campaign to convince viewers why they should spend DM1,400 on a decoding box, DM20 a month for the standard DF1 package and an additional DM10 for a special sports package.

And the group is well-placed to offer attractive programming. In addition to the Warner material, it has built up 80,000 hours of programming in a library which today contains 15,000 feature films and 50,000 hours of television programmes.

The new channels will also provide a showcase for screening the World Cup soccer finals in 2002 and 2006. Kirch and ISL, the Swiss marketing agency, bought the rights to show the matches outside the US earlier this month for SFr2.8bn (£1.4bn), taking them away from the European Broadcasting Union, the group of public service broadcasting networks which includes the UK's BBC and ARD and which previously held the rights.

The BSkyB/DF1 deal also has far-reaching implications for European television. It will give Mr Murdoch what he has always sought: a foothold in continental Europe through Kirch's extensive television interests.

It is not only in Germany that Kirch is strong. The group has broadcasting interests or production companies in France, Spain, Switzerland and Italy.

In Italy Kirch has a stake in Telepiù, the private pay-television company founded by Mr Silvio Berlusconi, the media magnate and former prime minister. The partnership began in 1988, when the two co-founded TF-1 Mercury International Film, a production company.

Until recently the Kirch stake was 33.6 per cent of Telepiù, with 32.5 per cent owned by the Rupert family from South Africa and 10 per cent by Fininvest, the private holding company of Mr Berlusconi.

Earlier this month, Kirch agreed to buy the 23.4 per cent stake held in Telepiù by Mr Renato Della Valle, an Italian businessman with close connections to Mr Berlusconi. This gives the group control of the Italian broadcaster, although there has been speculation that Kirch will reduce its stake to below 50 per cent to raise capital.

"It is very early days," muses a Kirch insider. "But it would not be inconceivable if Murdoch at some stage would be interested in a stake in Telepiù, just as we at one stage would be interested in a stake in BSkyB."

The possibility of a deepening alliance between Kirch and Mr Murdoch haunts the rivals of both. Bertelsmann and RTL, Germany's commercial television network, accuse the two groups of planning to form a monopoly.

"The two of them could stitch up European pay-TV and digital television," says a Bertelsmann executive. "Both have programming. Both have sports rights. And Murdoch knows how to run pay-TV, which is exactly the kind of experience Kirch is seeking."

Mr Zmeck says that since the deal with BSkyB, his telephone in the Kirch headquarters in Ismaning, a suburb of Munich, has not stopped ringing with offers. "We have found ourselves in a position where people are knocking at our door wanting to talk about alliances," he says.

Despite this commanding position, the Kirch group remains shrouded in secrecy. Mr Kirch, its 69-year-old media-shy founder, gave his last interview seven years ago and has never revealed sales, profits or how he finances his acquisitions.

He founded his empire in 1956 after quitting his job as an assistant professor in economics at Munich University. Then, German television was in its infancy. There was a shortage of entertainment, particularly films, and German distributors were slow to tap into the reserves of the US studios.

Mr Kirch started filling the gap by buying the rights to US and Italian films, with little support from German distributors. His first acquisition was the rights to Federico Fellini's "La Strada".

Ever since, he has pursued a consistent policy of buying up programming and distribution rights. "This is still our core business. You can't do anything without it," says Mr Johannes Schmitz, Kirch's chief spokesman.

In 1959, he founded the BetaFilm company to arrange the worldwide distribution of programmes. A year later, he had his first major success with ARD, selling it a package of 700 films.

His rivals, especially Bertelsmann and RTL, repeatedly accuse him of seeking a monopoly over film distribution. "This is about competition. They can bid as well," says a Kirch official.

On the strength of its programming and distribution network, Kirch was one of the first to enter commercial television broadcasting when it was launched in Germany in the early 1980s. The company bought a 43 per cent stake in Sat1, a television channel partly owned by the Axel Springer group; the channel has been an unashamed supporter of Mr Helmut Kohl, the German chancellor.

Two years ago, Kirch started to look at ways of entering digital television broadcasting which will greatly expand the number of channels and create more outlets for programming. Now 10 days from the launch of DF1, the company appears to have an unassailable lead over its rivals.

· OBSERVER ·

It's not just platonic

■ Shades of John Le Carré. In Copenhagen it's leaked out that one of the reasons why four British diplomats were expelled from Moscow in May centres on a man called Plato, who is presently languishing in a Russian cell, after being charged with espionage.

The 28-year-old Plato – full name Plato Obukhov, a Russian diplomat – seems, like his namesake, to have been a bit of a philosopher, or at least a dreamer.

For Obukhov has apparently published five novels, mirroring his secret life. The latest, entitled "Playing with Death", was all about a man who was. . . a spy.

News of Plato's arrest has solved in turn another minor mystery that disturbed Denmark's diplomatic corps – why did the Russian ambassador leave rather hastily in June? The plot thickens here, because it has just emerged that said ambassador was Plato's father, Alexei Obukhov.

This story has been broken by Vladimir Pimonov, a Russian emigré journalist employed by the Copenhagen tabloid newspaper Ekstra Bladet. Beyond the long arm of the Russian secret service, Pimonov uses the freedom to worm more secrets out of the Russian bureaucracy – using the telephone from the Danish capital – than his colleagues at home manage to do.

No doubt he'a in no hurry to return home.

Growth business

■ Can Terry Smith, UK number-cruncher who achieved the distinction of propelling a book on accountancy to the top of the best seller list, repeat the performance? His Accounting for Growth has sold more than 55,000 copies since being published in 1992; yesterday Smith was at the upmarket London store Harrods, to launch the second edition. This time round he lacks the marvellous publicity of being sacked by Union Bank of Switzerland.

But his friendship with Mohamed Fayed, Harrods' chairman, who put in an appearance at the book signing, seemed intact. Fayed contacted Smith after he had read about his dismissal from UBS, and the launch of the first edition – in which Fayed's pet hate, Lonrho, featured prominently – was also held at the store.

If Fayed goes ahead with the mooted flotation of his store – thus entering Smith's domain – will he be as hospitable for a third edition?

Bedding down

■ Prague officials are delighted about getting the International Monetary Fund to hold its annual meeting in the Czech capital in 2000. To land this fish Prague beat off South Africa, the Netherlands and the United Arab Emirates: Czech fisher-in-chief was finance minister Ivan Kocarnik.

Prague bureaucrats say the IMF's decision confirms the historic achievement of eastern Europe'a transition from Marx to the market. Full marks to Kocarnik.

But where are the jet-set delegates attending this jamboree going to sleep? There will be some 180 finance ministers and central bank governors, most of them unused to slumming it – and Prague is not exactly richly endowed with first-class accommodation. Then there's the commercial bankers, advisers, consultants, hacks. . .

Still, at least the venue has been selected – the Palace of Culture. Mayor Jan Koukal wants private business to stump up Kc2bn to refurbish this faded relic of Czech/Soviet comradeship. The delegates would probably prefer softer pillows.

Time to Singh

■ When P. Chidambaram, India's finance minister, presents his first budget on Monday, no one will be more attentive than the man responsible for the previous five, and who can take much of the credit for liberalising India's economy: Manmohan Singh.

It'e one measure of Singh's success that Chidambaram is expected to continue along the reformist path charted by his predecessor.

But Singh appears less than content. In his first interview since Congress lost elections in May, Outlook magazine this week found him in gloomy mood. "The entire system reeks of corruption," he told Outlook. "Both politicians and government servants are part of it. There is no dearth of people who have made money, but none has learnt any lesson."

He rails at political duplicity, singling out India's two main communist parties, which have already begun attacking the economic policies of the United Front government. "The communists agree with my policies," he says. "But they do not have the courage to own up to them openly".

Singh appears to be planning some owning up of his own. He's proposing to write a book, "telling all".

Treasure this one

■ Boffins at the US Treasury were puzzling over what to call an innovative new bond issue. Let's call it the Dole, said one. No, said the others: lacking in interest. What about the Gingrich? Nope, insufficient maturity. OK, try the Clinton. Out of the question: a complete lack of principal.

Financial Times

50 years ago

Copper Price Very Firm
Following the strike of artisans at the Rhodesian copper mines of Mufulira, Nchanga Consolidated, Rhokana Corporation, Roan Antelope and Rhodesian Broken Hill, and the stoppage of production, a very firm tone has developed in the international copper market. Metal available for export in America is now being quoted at 16 cents a pound f.a.s., compared with 15 cents a few days ago. It is understood that up to 300 tons has already been purchased on that basis. There is still a general reluctance, however, on the part of U.S. producers to sell anything approaching a normal tonnage owing to the general tightness of supply on the domestic market.

U.S. Silver Price
The joint House of Representatives and Senate conference has unexpectedly decided to reopen the controversy on the price of U.S. silver after voting earlier in the day to report their disagreement to both Houses. At their meeting yesterday, the committee agreed to the price of 90½ cents an ounce for silver purchased by the Government from domestic producers and metal sold by the Treasury for industrial use, but the Bill as approved by the committee contains no expiration date.

FINANCIAL TIMES
Friday July 19 1996

Inkombank chief angry at talk of bankruptcy

Russia's fifth largest bank accuses 'dishonest' rivals

By Chrystia Freeland in Moscow

The president of Inkombank, Russia's fifth largest bank, yesterday accused "vengeful" government officials and "dishonest" rivals of provoking rumours that his institution was on the brink of bankruptcy.

Central bank officials and senior members of the government have publicly vouched for Inkombank's solidity over the past few days, but Mr Vladimir Vinogradov, the bank's president, said the speculation had already done significant damage.

Mr Vinogradov said that depositors had withdrawn Rbs160bn ($32m) since the beginning of the month, when reports about the bank's fragile financial state first appeared in the Russian media. Other bank executives said some foreign partners had become "reluctant" to work with Inkombank in the wake of the reports.

Mr Vinogradov's statement opened a window on the byzantine world of Russian business, where good political connections can be a vital financial asset, and highlighted how difficult it can be for outsiders to assess the true standing of companies.

In Russia, where hyperinflation and the collapse of dozens of financial institutions over the past few years have bred a national wariness of banks, reports like those which have circulated about Inkombank have an immediate effect.

The furore comes at a time when a sharp fall in inflation and lower yields on government bonds have led most Russian and western economists to predict a shake-out in Russia's frail financial sector. One major bank went into receivership earlier this month. Inkombank was widely considered to be the bank most likely to fail next after Kommersant, the leading Russian business daily, published a leaked report by central bank inspectors warning of substantial liquidity problems. The story was picked up by ORT, Russia's biggest television network, 51 per cent state-owned, which broadcast the tale to millions of Russians.

Inkombank officials said yesterday that, in a revised version of the report, central bank auditors had modified their criticism to "some accounting errors" and the deputy head of the central bank has assured the public that Inkombank is solvent.

The officials alleged that the controversy – including the central bank's unusual decision to make a special inspection and the eventual leaking of the report to the press – was part of a government effort to suppress one of the rare dissenting voices in the business community.

"We believe the inspection is connected with the shares-for-loans auctions," Mr Vinogradov said, referring to last year's contentious privatisation programme. Inkombank, together with many western observers, alleged that the auctions were a cover-up for the transfer of valuable state assets to government insiders at a fraction of their worth.

Few observers would be likely to disagree with Mr Vinogradov's wider charge that close ties between the government and a few private companies still mar Russia's bid to create a market economy out of the lumbering behemoth it inherited from the Soviet Union. But even those who share Mr Vinogradov's general views are now wondering, in the words of a concerned analyst from China who has been working with Inkombank, if "there can be smoke without fire".

Companies asked to help bring Stonehenge up to date

By Antony Thorncroft in London

Stonehenge, the most famous ancient monument in the UK, is to get a new lease of life.

English Heritage, the government-financed organisation which administers the 4,000-year-old ring of stones, is asking private sector companies to form a consortium to contribute £32.5m ($50.7m) towards the construction of a new visitor centre on the site.

The centre would have restaurants and shops as well as a high-technology interpretation of the site.

"The Stonehenge Experience" should be open to the public by 2000. It is expected to attract at least 1.8m visitors a year.

Stonehenge, Britain's most celebrated world heritage site, is the leading property in the care of English Heritage and the cause of many of its problems.

For the past 30 years the public has been kept away from direct access to the huge stones because of fears of vandalism.

This has led to disputes and confrontations with Druids, who traditionally worship there on Midsummer's Day.

Past proposals to improve the area have met with opposition from local authorities, pressure groups and archaeologists, who are concerned about the 450 other ancient monuments on the 1,620-hectare site.

To solve its problem, English Heritage has harnessed the latest privatisation innovation of Britain's Conservative government, the so-called private finance initiative.

This was introduced in 1992 as a means of attracting private capital to fund capital projects which the state was unwilling to finance.

If a consortium can be founded – and four groups of companies with expertise in leisure, catering and design have already expressed an interest – English Heritage will in November ask the Millennium Commission, which is funded by the UK National Lottery, to provide a matching sum. Work on the development should start next year.

Currently fewer than 1m tourists come to Stonehenge. A quarter of them observe the stones from a distance, and do not pay to enter the car park and the dilapidated visitor centre, which in 1992 was described by the public accounts committee of the British parliament as "a national disgrace".

The new visitor centre will cover 8,000 sq m and be located 2km from the stones.

Visitors will be transported by monorail to within 500m of the circle, which will become accessible to the public by foot again.

Back to the future, Page 11

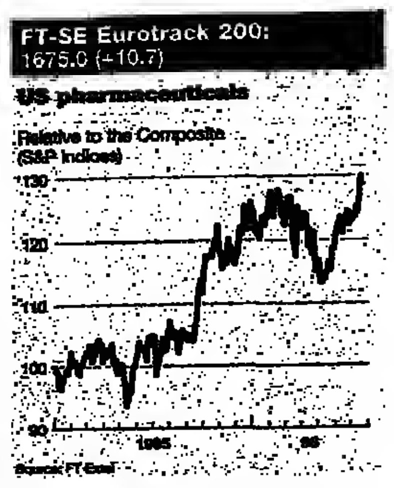
THE LEX COLUMN

Greenspan's games

If obfuscation was the name of the game – and it undoubtedly was – Mr Alan Greenspan's testimony to the US Congress yesterday was a triumph. According to the Federal Reserve chairman, inflation might or might not become a problem, but if it did he would stamp on it. Meanwhile, the economy looked set to slow, but it could see a burst of short-term growth. It was a speech which offered something for everyone, but added up to virtually nothing, and the stock and bond markets loved it.

The good news for equities was the nuance that an interest rate rise was not imminent. Given the recent decline in share prices, it is hardly surprising that Mr Greenspan should try to calm jumpy investors. The bad news, however, is that Mr Greenspan's comments support the case for an increase sooner, rather than later. His testimony offered no evidence that political pressure has encouraged a more relaxed attitude to inflation. And more important, he suggested that factors that have been restraining wages and prices – such as job insecurity – are only temporary, and he pointed to evidence that this phase is already coming to a close.

Mr Greenspan does still hold out the hope that the economy may have become self-regulating, with higher bond yields (and therefore higher borrowing costs) restraining corporate activity, and pent-up consumer demand from the recession finally subsiding. But the tone of the speech was cautious, and investors should act accordingly. The odds must still be on a pre-emptive rate rise, if only to signal that the Fed will not submit to pre-election complacency.



US pharmaceuticals

America's drug companies are in robust health, judging by the latest quarterly results. Average volume growth of 8-10 per cent is running ahead of best expectations and those with new products are moving much faster. Merck, boosted by the launch of drugs for lowering cholesterol and fighting osteoporosis, increased its second quarter sales by nearly 20 per cent. Pfizer's turnover grew 11 per cent over the same period despite publicity linking two of its main heart medications to cancer. And these growth rates were achieved in the face of a rising dollar which hit overseas sales and earnings on translation.

But volume growth is only half the story. Price pressures are also less fierce. Neither in Europe nor the US is there any sign of politically motivated price cuts at the moment and Japan is stabilising after its biennial price reduction this spring. America's managed care organisations are stepping up their drug purchases, because it is much cheaper to put patients on medication than to send them to hospitals. That – and a flood of more effective, new products – is starting to swing the balance of power back in favour of the pharmaceutical companies.

This has triggered handsome outperformance, with the pharmaceutical sector outpacing a rising US market by 30 per cent over the past 18 months. That leaves it trading on a demanding 15-20 per cent premium to the market average. But with Wall Street increasingly nervous of technology stocks and cyclicals, drug companies look like a safe haven.

New issues

When the London stock market sneezes the new issues market tends to catch cold and there are certainly plenty of sniffles around at the moment. Recent flotations, including British Energy, Sun Life and Jarvis Hotels, are trading at a discount to their issue price. Allied Carpets, a solid retailer, has been priced at the bottom of the indicated range and supermarket chain Somerfield is struggling to get to market on a price/earnings multiple of only seven. Meanwhile, it has become almost impossible to float a biotechnology stock. Alizyme has raised only a third of the money it wanted and Cambrio has delayed its flotation altogether.

Companies and investors have only themselves to blame for this bout of fatigue. Earlier this year, cash-rich fund managers were keen to put money into equities and backed new issues without looking too closely at quality. Companies rushed to join a frothy market: in the second quarter of 1996 flotations raised £4.2bn, more than in the whole of 1995. And the success of the junior Aim market has attracted a number of blue-sky companies for which venture capital funding might have been more appropriate.

Now that sentiment has turned, institutions have become much more picky – just as in early 1995 after the high-profile collapse of 1994 newcomers such as Aerostructures Hamble. Large, established groups like Dairy Crest and Lonrho's Princess Metropole hotels should have little trouble floating – though pricing will be under pressure. But smaller companies and biotech groups might consider a trade sale or venture capital instead.

British Gas

Tuesday's 450-page Monopolies and Mergers Commission report on BAA may have been turgid stuff, but it will have been eagerly read in at least one other boardroom - British Gas's. If BG fails to persuade Ms Clare Spottiswoode to water down her tough regulatory proposals, it can try its luck at the MMC instead. And the generosity of the BAA report suggests it has every reason to do so.

True, the BAA report offers few clues as to whether the MMC might take a less aggressive line on one of the biggest arguments between BG and its regulator – over depreciation. But in three areas, the MMC line is notably softer than Ms Spottiswoode's. First, the MMC's attitude to BAA's cost and revenue projections is remarkably trusting; Ms Spottiswoode's approach to BG's was much more sceptical. Second, the long-term rate of return proposed by the MMC for BAA – 7.5 per cent – is comfortably above Ms Spottiswoode's 6.5-7 per cent range. Third, the MMC is planning to allow the BAA a leisurely five year period before it reaches this level; Ms Spottiswoode wants BG to cut its returns at once.

A softer approach in any one of these areas could make a big difference to BG's finances. A 0.5 per cent increase in the allowed rate of return, for instance, would add £50m to BG's annual cash flow – increasing the value of the company by something like £400m. Of course, there is no guarantee BG will get as lax a deal out of the MMC as BAA. Nonetheless, the MMC's soft, pragmatic approach still looks a considerably better bet than anything the company might extract from Ms Spottiswoode.

Additional Lex comment on London Underground, Page 20

US shares rise

Continued from Page 1

nothing in the tenor of his remarks to suggest that markets need be apprehensive of an aggressive tightening of policy," said Mr Bill Griggs, a Wall Street bond market commentator. He believed the message was that "inflation is good this year and is going to get better next year."

Mr Greenspan said higher bond yields, the rise in the dollar and waning demand by households and businesses for durable goods would contribute to a slowing of growth in coming months.

Prices had been surprisingly quiescent with the "core" inflation rate – which excludes food and energy – so far lower this year than in 1995.

Jumbo crash

Continued from Page 1

indications are that that crash was caused by hazardous material exploding in the hold, but the Federal Aviation Administration did find shortcomings in ValuJet's maintenance procedures.

The aircraft for Flight 800, which went into service in 1971, had flown from Hellenikon airport, Athens, to New York's JFK before beginning its flight to Paris. The US authorities issued a warning four months ago that security at Hellenikon was lax. The warning was lifted in May after security was tightened.

Israel and Egypt affirm search for Middle East peace

By Sean Evers in Cairo

Egypt and Israel said yesterday they had agreed on the future of the Middle East peace process, following a 2½ hour meeting between Mr Benjamin Netanyahu, Israel's new prime minister, and President Hosni Mubarak of Egypt, in Cairo.

"We've cleared the air," Mr Netanyahu said after his first meeting with an Arab head of state since taking office last month. Mr Mubarak said he had "a clear picture about what could happen, a clear picture that he [Netanyahu] is going towards the peace process".

At last month's Arab summit in Cairo, Arab leaders warned that any deviation from the principle of "land for peace" established at the 1991 Madrid conference sponsored by the US and Russia would shatter regional detente and force Arab countries to reconsider the ties established with Israel in the past five years.

Mr Netanyahu avoided any mention of the land-for-peace formula yesterday, but moved to soothe Arab fears, saying: "I think that the terms of reference of Madrid can unite us around a common frame of reference. This is how we intend to proceed." But he said there were "different interpretations" of the Madrid formula. Mr Mubarak went a step further, underlining that the cornerstone of the peace process launched in Madrid was land-for-peace, "clearly defined in writing, and it does not have any further interpretation".

Mr Mubarak said yesterday's talks centred on "the need to create the proper atmosphere to resume peace negotiations on all tracks".

Until the framework for reconvening talks between Israel and Syria, and Israel and the Palestinians is established, most Arab leaders will need convincing that Israel is reconsidering its refusal to give back Arab land.

Mr Osama al-Baz, the Egyptian president's political adviser and a key intermediary in regional peace negotiations, stressed the importance of "a beginning for the process of moderation, where Mr Netanyahu will realise the necessity of being flexible, for he has been formulating his policies in the absence of any real dialogue with the Arabs".

Mr Netanyahu said his government would honour existing arrangements on Palestinian self-rule. He announced that his foreign minister, Mr David Levy, would meet Mr Yassir Arafat, the Palestinian leader, next week.

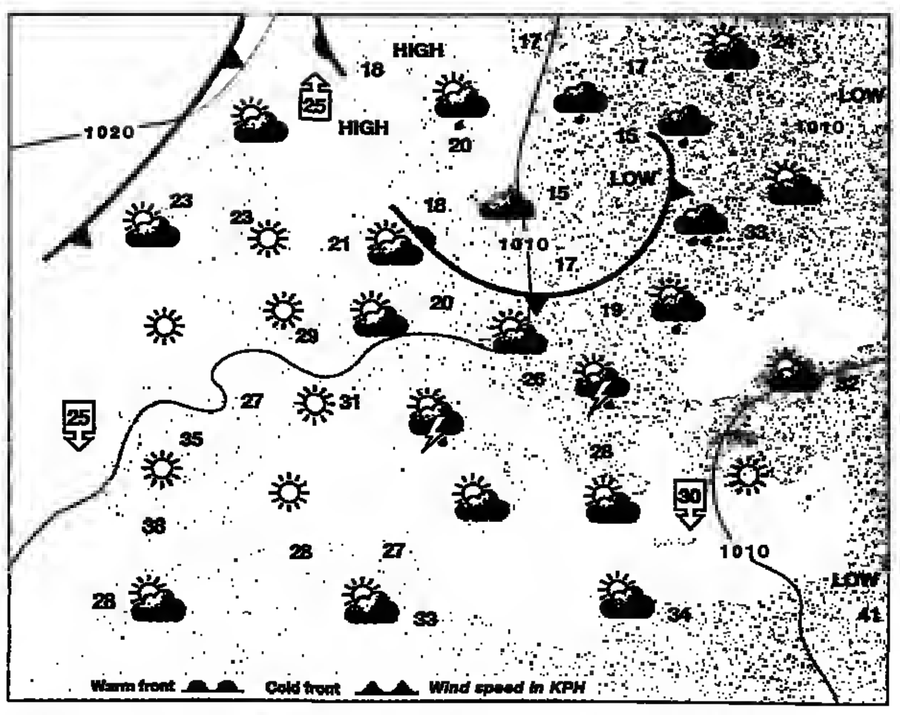
FT WEATHER GUIDE

Europe today

Light to gentle southerly breezes will bring warm and dry air to most of the UK. Temperatures will range from 20C to 25C. Some coastal regions will be a bit cooler. Spain and Portugal will be hot. France will be sunny with afternoon temperatures between 25C and 32C. The western Mediterranean, Italy and the Balkan states will have scattered thunder showers during the afternoon and evening. The Benelux and southern Scandinavia will remain dry and sunny with temperatures between 18C and 23C. Central and eastern Europe will continue cool with some rain across Poland, parts of Slovenia, the Ukraine and Romania. Greece and Turkey will continue sunny and warm.

Five-day forecast

During the weekend, eastern and central Europe will turn warmer and will remain mostly dry. Early next week north-west Europe will have rain and will be slightly cooler. Later next week central Europe will become unsettled. Spain and Portugal will continue hot and sunny.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	
Abu Dhabi	sun	44
Accra	cloudy	27
Algiers	fair	28
Amsterdam	fair	21
Athens	sun	30
Atlanta	sun	34
B. Aires	fair	12
B.ham	fair	24
Bangkok	thund	35
Barcelona	fair	28
Beijing	cloudy	31
Belfast	fair	24
Belgrade	fair	22
Berlin	fair	18
Bermuda	fair	30
Bogota	thund	19
Bombay	rain	31
Brussels	sun	22
Budapest	cloudy	19
C.hagen	fair	19
Cairo	sun	33
Cape Town	sun	17
Caracas	rain	32
Cardiff	fair	24
Casablanca	fair	28
Chicago	fair	28
Cologne	fair	22
Dakar	fair	30
Dallas	fair	38
Delhi	fair	36
Dubai	fair	43
Dublin	fair	23
Dubrovnik	fair	28
Edinburgh	fair	23
Faro	sun	30
Frankfurt	fair	21
Geneva	sun	25
Gibraltar	sun	27
Glasgow	fair	23
Hamburg	cloudy	17
Helsinki	cloudy	16
Hong Kong	thund	31
Honolulu	fair	31
Istanbul	fair	27
Jakarta	fair	32
Jersey	sun	20
Karachi	fair	35
Kuwait	sun	46
L. Angeles	sun	25
Las Palmas	sun	28
Lima	cloudy	19
Lisbon	sun	32
London	sun	25
Lux.bourg	sun	22
Lyon	sun	26
Madeira	fair	26
Madrid	sun	38
Majorca	sun	30
Malta	sun	30
Manchester	fair	23
Manila	rain	33
Melbourne	shower	14
Mexico City	shower	21
Miami	fair	33
Milan	thund	27
Montreal	shower	23
Moscow	shower	19
Munich	fair	20
Nairobi	cloudy	23
Naples	fair	29
Nassau	fair	32
New York	thund	30
Nice	fair	28
Nicosia	sun	36
Oslo	fair	21
Paris	sun	27
Perth	shower	18
Prague	cloudy	17
Rangoon	rain	30
Reykjavik	cloudy	12
Rio	fair	25
Rome	fair	31
S. Frsco	sun	24
Seoul	shower	31
Singapore	fair	32
Stockholm	fair	19
Strasbourg	sun	23
Sydney	fair	19
Tangier	sun	31
Tel Aviv	fair	32
Tokyo	rain	30
Toronto	fair	24
Vancouver	thund	19
Venice	fair	25
Vienna	cloudy	18
Warsaw	rain	15
Washington	fair	34
Wellington	cloudy	12
Winnipeg	thund	26
Zurich	fair	22

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IN BRIEF

Banacci may sell brokerage stake

Banacci, Mexico's largest financial group, may sell a large stake in its brokerage company Accival to complete a $1bn recapitalisation programme for Banamex, its banking arm. Merrill Lynch and Goldman Sachs have held exploratory talks separately with Accival, Mexico's largest brokerage. Page 16

Merck and Pfizer meet forecasts

Merck and Pfizer, two of the fastest-growing US pharmaceuticals groups, matched stock market expectations with earnings per share growth of 18 per cent and 22 per cent, respectively, in the second three months of the year. However, Merck registered a 1.6 percentage point drop in its pre-tax profits margin, to 28.4 per cent, while Pfizer recorded a 2-point improvement in its pre-tax margin, to 21.6 per cent. Page 16

BBV beats growth target

Banco Bilbao Vizcaya, the biggest Spanish banking group in terms of stock market capitalisation, reported a sharp increase in first-half profits. It said it was well ahead of targets set under its "1,000-day plan" to achieve double-digit growth in earnings per share and dividends through to 1997. Page 18

Nomura and Daiwa release results

Nomura Securities and Daiwa Securities, two of Japan's leading securities houses, have released their first-quarter results, reflecting efforts by the industry to increase disclosure to investors. For the three months to June, Nomura's unconsolidated recurring profits – before extraordinary items and tax – jumped 15.4 times from a year earlier to Y36.4bn ($327.92m). Page 19

Reliance plans petrochemicals expansion

Reliance Industries, India's largest private-sector company, is set to become a "global force" in petrochemicals, according to Mr Dhirubhai Ambani, its founder and chairman. He told the annual meeting that he expected expansion projects across the petrochemicals-to-textiles production to more than double sales by 2000. Page 19

Gold rise helps Anglo American

Anglo American's gold and uranium division has posted a 43 per cent rise in net profit for the quarter ended June 30 to R323m ($73.6m) as the higher gold price – in rand terms – consolidated gains at its deep level mines. Page 19

Former chairman defends LME system

Mr Christopher Green, former chairman of the London Metal Exchange, has launched a spirited defence of the exchange's unique way of operating – which has been called into question following the Sumitomo scandal. Mr Green points out that Sumitomo has not defaulted, in spite of claiming losses of $1.8bn, nor has any member of the LME. Page 24

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Porsche	855	+	10
RWE	55	+	0.80
Falls			
[illegible]	145	-	7
AEG	543	-	11
[illegible]	560	-	25
MAN	388	-	5.5
NEW YORK ($)			
Rises			
Boston Scien	48⅞	+	3¾
Progress Corp	47⅞	+	4⅛
Wackenhut	27⅝	+	2⅝
Falls			
Network Eqp	12¾	-	3¾
Seagull Engy	20⅝	-	3
Thiokol	17¼	-	1⅝
LONDON (Pence)			
Rises			
Chiroscience	340	+	23
Global	25	+	4
Motor World	285	+	65
Falls			
[illegible]	429	-	14
McDonnell Info	61¼	-	3½
Telemetrix	53	-	18
TORONTO (C$)			
Rises			
Barkley Pet	20.60	+	2.10
[illegible]	48.25	+	8.70
Multi-Corp	8.25	+	1.15
Falls			
EMJ Data Sys	8.80	-	0.40
CSM Inc	15.50	-	1.25
Pan Am Silver	10.95	-	1.25
PARIS (FFr)			
Rises			
BIC	690	+	22
Carrefour	2684	+	43
Seb	885	+	31
Falls			
Axa	268	-	5.90
Colas	800	-	31
Gilbert	709	-	10
TOKYO (Yen)			
Rises			
Aoyama Trading	3050	+	80
Fuji Spinning	595	+	18
Japan Wool	1160	+	50
Nagasakiya	529	+	39
Falls			
[illegible]	2210	-	60
[illegible]	1000	-	20
HONG KONG (HK$)			
Rises			
China Elegance	4.25	+	0.225
Citic Pacific	31.70	+	0.70
Shell Elec Mfg	5.10	+	0.30
Falls			
Luoyang Glass	1.38	-	0.18
New Island	1.18	-	0.08
Varitronix	15.00	-	0.40
BANGKOK (Baht)			
Rises			
Pacific Fin	37.50	+	3.25
Siam Sport	117.00	+	10.00
Thai Sto	86.00	+	3.50
Falls			
Essent Intl Co	42.75	-	2.75
Poonpipat Fin	35.00	-	2.50
Thai Stan Ele	137.00	-	8.00

New York & Toronto prices at 12.30.

AT&T stocks fall on growth warning

By Tony Jackson in New York

AT&T, the largest US telephone company, warned that intense competition in the deregulated US market would result in lower growth in its domestic consumer business than last year.

The share price fell 5 per cent after Mr Rick Miller, AT&T's chief financial officer, said: "We do not intend to sacrifice our financial targets [for] short-term volume growth." Mr Miller blamed pressure from traditional competitors and new entrants, which was likely to persist. He accused some competitors of misleading customers on the trua price of their services.

AT&T's apparent loss of market share was highlighted by figures from its smaller rival in the long-distance market, MCI. While AT&T's total revenues from long-distance telephony were up only 2 per cent at $11.2bn, MCI's long-distance revenues were 13 per cent higher at $4.2bn.

AT&T's shares fell $2⅝ to $53⅝ in early trading while MCI dropped $⅝ to $23⅝.

AT&T's total operating income in the second quarter was 2 per cent higher at $2.3bn, on sales also up 2 per cent at $13.0bn. A lower tax charge lifted net income 10 per cent to $1.5bn, or $0.92 a share. The figures exclude Lucent Technologies, the equipment manufacturing business spun off in April.

MCI's operating income rose 33 per cent to $582m, on revenues 23 per cent higher at $4.6bn. Net income rose 15 per cent to $300m, or $0.43 a share.

Both companies reported stronger results in business telephony than in the consumer market. MCI said its business-to-business sales growth had been exceptionally strong, while AT&T said it had grown at the industry rate.

AT&T reported sales growth of 18 per cent in wireless telephony, in which it is the biggest US operator, to $854m. Subscribers rose 30 per cent to 6.25m.

AT&T said NCR, the computer company which it intended to spin off by the end of this year, made an operating profit of $11m in the quarter, compared with a $219m loss. NCR's revenues were down 18 per cent to $1.7bn, reflecting its withdrawal from personal computers.

MCI said revenues at Concert, its international alliance with British Telecommunications, had revenues almost doubled year-on-year, from $74m to $139m. Total revenues from new ventures were $477m, with a combined net loss of $69m owing to start-up costs.

MCI said revenue from Internet traffic was three times the level of a year ago.

Biotech companies are wondering whether the recent run of investor confidence is over

Clinical trials in the marketplace

Biotechnology companies on both sides of the Atlantic have seen a nine-month bull market come to an abrupt end this month. UK investors' frazzled nerves may have been soothed yesterday by a recovery in some of the sector's best known stocks, such as British Biotech and Cantab Pharmaceuticals. But analysts are far from convinced that the sector is about to resume its upward run.

Investors have poured enormous sums into biotechnology this year. Biotech companies in the US and UK raised almost $3.3bn in public offerings in the year to July 11. The figure for the equivalent period of 1995 was $194m, according to Bioworld Financial Watch, an Atlanta-based newsletter which follows about 270 biotech companies in the US and UK.

The cash inflow has coincided with a sharp rise in the sector's shares. Share prices of the companies tracked by Bioworld rose on average more than 22 per cent in the first half of the year.

But these Bioworld stocks fell more than 9 per cent in the first week of July. British Biotech's share price fell from more than £35 in May to £20, and others have fallen as heavily.

Interneuron, one of the biggest US biotech stocks, had a market capitalisation of more than $1bn. Its shares rose from $26 in January to $42 in late May before falling to $30.

The first signs of difficulties in the UK sector appeared two weeks ago when the flotation of Cambrio, which wants to sell an overdose-proof paracetamol, was postponed because too few investors were interested. This week it was revealed that owners of fewer than half the shares in British Biotech have taken up their rights to new shares.

Trouhls with flotations and rights issues is bad news for the sector. Biotech companies try to turn scientific ideas into commercial medical products. They have negligible sales during the many years of research and development and rely on outside sources to pay the R&D costs. When investor confidence shows in rapidly rising share prices, biotech companies pile in to raise money.

But problems with share prices are less shocking to long-term investors in the sector.

"When Genentech came to the market in 1981, its shares rose many-fold when trading began. It was the Netscape of its day. Since then we've seen four or five [share price] cycles," says Mr Viren Mehta, of US research boutique Mehta and Isaly.

The last bull market in the sector was in 1991 and early 1992. It was followed by the worst recession the sector had seen. Biotech companies laid off staff, merged or even collapsed. Analysts believe that is unlikely to be repeated this time.

Mr Ian Smith, of stockbroker Lehman Brothers in London, says: "We are three years further on and hence many companies are closer to getting products on market."

Mr Mehta agrees, saying that last time there was a handful of profitable biotech companies. Now there are about 20 and he forecasts this will rise to between 50 and 75 by 2000.

"This [share prices] correction is the result of greed," says Mr Mehta. He blames the enthusiasm by biotech companies to fill their vaults with cash as fast as they could, and on investors seeking a quick profit.

Biotech chief executives are unapologetic. "You raise money when you can," says one.

The causes of the latest share price falls are significantly different from those which triggered the 1992 collapse in investor confidence.

Then, the bad news came in the form of the failure of a promising drug in the final stage of clinical trials. This time, there has been no equivalent item of bad news. The effect, says Mr Mehta, should limit the share price falls and encourage investors to distinguish between the best companies and the rest.

One way of doing this is to see which have raised enough money in recent months to see them through to the commercialisation of their products. "It's going to be very rough for anyone trying to raise new money over the next 12–18 months," says Mr Edmund Debler of Mehta and Isaly.

Another way is to follow the lead of pharmaceuticals companies which sign deals to market the products biotech companies are developing. In theory, at least, the R&D departments in hig pharmsceuticals companies should be better plsced than most investors to evaluate the scientific and commercial potential of a biotech company's projects.

The fortunes of the sector are likely to hinge on progress with clinical trials of important products.

For the time being, investors and biotecb company executives can no longer rely on momentum to keep their share prices up. They will have to watch out for events that affect the fate of real products in research.

Daniel Green

Fidelity expands in flexible pensions

By Maggie Urry in New York

Fidelity Investments, the large US fund manager, is making an aggressive push into the fledgling defined contribution pension plan markets in the UK, Canada and Hong Kong.

Under a defined contribution plan, employees can decide how mnch to save and where the money should be invested. The idea is that individuals can tailor investments to their particular retirement needs, for instance taking account of their age. The size of the eventual pension depends on the success of the investments.

Fidelity, the leading provider of defined plans in the US with 3.7m participants and $108bn of investments, said companies and employees aronnd the world were beginning to face the same retirement issues that Americans had seen several years ago.

Defined contribution pension plans, known in the US as 401(k) plans after the section of the tax code under which they were introduced in the 1980s, bave formed the fastest growing segment of the US pension fnnd management market. However, as more fund management groups have targeted the segment for expansion, it has become increasingly competitive, reducing the profitability of the business.

Fidelity, and other US fund managers, bave begun to look outside their domestic market for growth opportunities.

Mr Robert Reynolds, president of Fidelity Investments Institutional Retirement group, said: "These countries are about to experience rspid growth in defined contribution plans as workers take s growing personal interest in planning and saving for their retirements."

In Canada, Fidelity won its first client – Campbell's Soup – in October, and now bas six. Some of the clients, including Campbell's, are snbsidisries of US companies which already employ Fidelity. Mr Reynolds said many of Fidelity's US clients were multinational groups looking for global pension fund managers.

In the UK, Fidelity began offering the plans two years ago and now acts for British Petroleum, the oil company, and the British Brosdcasting Corporation, the pnblic service broadcaster.

Mr Reynolds said legislation bsd recently heen passed in Hong Kong requiring companies to set up defined contribution pension plans.

BASF to close four plants in Germany and cut 900 jobs

By Jenny Luesby in London

BASF, the German chemicals group, is to close four plants at its main production site in Ludwigshafen, Germany, with the loss of 900 jobs. The move was prompted by ths decline of the European textiles and leather markets.

Mr Albrecht Eckell, s BASF management board member, said the group had been forced into the closures by falling sales and profit margins.

The four plants, which will be closed by the end of 1998, produce textile and leather chemicals, dyestuffs, acrylic scid, and speciality chemicals. Nearly all of their sales are to the textiles and leather industries.

BASF said most of its customers in these industries had moved to Asia. The 550,000 textile and leather operations in Germany in 1970 had fallen to 180,000 by 1994. This shift has already prompted the group to announce the relocation of the worldwide headquarters of its textiles and leather chemicals division from Ludwigshafen to Singapore. This move is set to be completed by the end of the year.

However, the group was also suffering from falling global prices caused by intense competition from textile chemical producers in countries with lower labour costs, such as India.

As a result, BASF businesses supplying the textiles industry had experienced falling sales and profits throughout 1995, when the rest of tha chemicals industry was enjoying its hest performance for many years. The difficulties in this sector have prompted many European producers to pull out of textile chemicals. BASF had no plans to withdraw from the sector, said Mr Eckell, but cost-cuts were essential if these businesses were to survive.

Under a deal reached last year with Cihs, the chemical company, BASF will hecome tbe Swiss company's main supplier of textile dye ingredients, while the production of these chemicals at Ciba's Basle site will be phased out over three years. Ciba, which is to merge with Sandoz to form Novartis, is the largest producer of textile dyes in Europe.

BASF's main German rivals, Hoechst and Bayer, have hived off their textile dyes operations into a joint venture, Dystar, to form the second largest producer in Europe. Meanwhile, BASF's £138m ($214m) acquisition earlier this year of Zeneca's textile dyes business has made the group into Europe'a third largest producer.

Spanish groups in venture talks

By Tom Burns in Madrid

Repsol, Spain's leading energy group, and Iberdrola, the second-ranked domestic electricity producer, are in talks on setting up a large joint energy venture, initially budgeted at Pta180bn ($1.03bn).

The venture, which would aim to turn oil refining by-products into gas, would be one of the biggest industrial undertakings by domestic corporations in Spain.

The architect is understood to be Banco Bilbso Vizcaya, the banking group which owns 7 per cent of Repsol and 11.5 per cent of Iberdrola. Mr Alfonso Cortina, a member of BBV's board and the bank's main individnal shareholder, was appointed Repsol's chairman last month. BBV said yesterday the talks between the two corporations were st an initial stage and s preliminary agreement over the venture was unlikely before September.

Repsol refused to confirm reports yesterday of a specific project that centred on updating an oil refining plant operated by Petronor, a Repsol subsidiary near Bilbao in north Spain, to produce gas from the residues of the refining process.

According to reports this new facility, which would take three years to build, would use, for the first time in Spain, a gasification system called IGCC (integrated gas combined cycle).

The Repsol-Iberdrola venture represents a further step towards the configuration of two rival Spanish alliances, both led by banks and involving big investments in key industrial sectors.

BBV, together with La Caixa, the main domestic savings bank, has recently built up a significant equity stake in Telefónica, the national telecoms operator, as well as in Repsol.

In the opposing camp, Banco Santander and Banco Central Hispano (BCH) have invested strongly in Endesa, Spain's leading electricity generator, and with Endesa they are preparing to bid for Retevisión, the future second telecoms operator.

Endesa, which is partially privatised and is one of the most profitabls domestic corporations, is additionally diversifying into the oil and gas sectors.

BBV results, Page 18

Banacci considers sale of stake in brokerage firm

By Leslie Crawford in Mexico City

Banacci, Mexico's largest financial group, may sell a large stake in its brokerage firm, Accival, to complete a $1bn recapitalisation programme for Banamex, its banking arm.

The brokerage is attracting possible buyers: Merrill Lynch and Goldman Sachs are understood to have held exploratory talks separately with Accival.

The rival US investment banks recently became licensed broker-dealers in Mexico, alongside ING Barings of the Netherlands and Spain's Santander, but their presence in the market is small.

Accival, by contrast, is Mexico's largest brokerage, as well as the cradle of Banacci's financial empire. It was the springboard from which Mr Roberto Hernandez and Mr Alfredo Harp mounted the winning bid for Banamex in 1991, when most of the banking sector was privatised. The union of Accival and Banamex gave birth to Banacci, which had total assets of 18.36bn pesos ($2.4bn) at the end of 1995.

In the first five months of 1996, Accival had business worth 76bn pesos, or 22 per cent of the total volume traded on the stock market.

In spite of the heavy competition (there are 32 licensed broker-dealers in Mexico) and last year's difficult operating conditions, Accival is modestly profitable.

Banamex executives say selling a stake in Accival is only one of several options under consideration to raise the final $200m of the bank's $1bn recapitalisation programme.

But an alliance with a foreign partner would follow the pattern established over the past year. In October, Banamex sold 49 per cent of its insurance business to Aegon, the Dutch insurance group, to raise $250m. A joint venture with MCI of the US, to provide long-distance telecommunications, also earned new capital for the bank.

Earlier this week, Banamex completed a debt swap which added $350m of fresh capital to the bank. Banamex offered to exchange $250m of convertible debentures maturing in 1999 for new debentures bearing a higher rate of interest, due in 2003, and sold an additional $100m of the new debentures for cash.

Cemex, the cement multinational, has also successfully extended its debt maturities. The company this week completed a refinancing package to extend the average life of its $3.9bn debt from 2.5 to four years.

Mr Gustavo Caballero, Cemex chief financial officer, said investors had tendered $541m worth of notes maturing in 1998. To pay for the offer, Cemex placed $600m of four-year and 10-year debt with a group of more than 40 US and European institutions. The four-year notes bear a coupon of 12.75 per cent.

The lengthening maturities of new debt placements show Mexico's blue-chip companies are regaining the confidence of institutional investors, even though premiums are higher than those before the devaluation of the peso in December 1994.

Other companies which had hoped to retire debt with new equity issues have had to delay their plans because of recent volatility in the US stock markets. Ahmsa, Mexico's biggest steel producer, and Desc, an industrial conglomerate, both postponed equity offerings due to the sudden drop in their share prices this week.

Barrick profits fall after exploration spending rises

By Robert Gibbens in Montreal

Barrick, North America's biggest gold producer, posted lower second-quarter and first-half earnings because of heavier exploration and development spending.

Net profit for the quarter was US$68.9m, or 19 cents a share, down from $75.4m, or 21 cents, a year earlier, on gold revenues of $325.5m against $310m.

Operating cash flow was $108.4m against $110.3m.

Barrick last week made a C$915m (US$667m) bid for Arequipa Resources, a four-year-old exploration company whose main asset is a promising gold property in Peru.

"The excellent performance of our mines and our financial strength allow us to pursue global development to expand our reserves and production long-term," said Mr Peter Munk, chairman.

Barrick, with production mainly in North America, said higher exploration spending was identifying "a number of promising properties to build an expanding base of gold resources".

At June 30, Barrick had $269m cash and no long-term debt.

Late last year it arranged a five-year syndicated $1bn revolving credit facility with a group of banks.

First-half profit was $140.9m, or 39 cents a share, against $146.5m, or 41 cents. Operating cash flow was $230.7m against $225.1m.

Gold revenues were $655m against $610m. Exploration expenses rose 71 per cent to $31m.

Gold output for the second quarter was 784,051 oz against 773,556 oz, and in the first half 1,584,565 oz against 1,483,986 oz. Barrick said it was on target for output of 3.2m oz for the year.

Reserves at the Pascua mine in Chile, which will cost $300m to bring into production, have been almost doubled to 3.4m oz and the deposit is still open at depths.

Peter Munk: 'performance allows global development'

Pfizer and Merck meet Wall Street expectations

By Richard Waters in New York

Merck and Pfizer, two of the fastest-growing US pharmaceuticals groups, matched stock market expectations with earnings per share growth of 16 per cent and 22 per cent, respectively, in the second three months of the year.

The latest results, though, confirmed the opposite direction in which the two group's profit margins are moving. Merck, which derives much of its growth from its lower-margin Medco pharmacy benefits business, registered a 1.6 percentage point drop in its pre-tax profits margin, to 28.4 per cent.

Pfizer, on the other hand, recorded a 3-point improvement in its pre-tax margin, to 21.6 per cent, thanks to higher sales of more profitable new products.

At Merck, sales rose 19 per cent during the quarter, to $4.9bn, in spite of the effects of the rise in the US dollar. Strong unit volume gains were behind this increase, said Mr Raymond Gilmartin, chairman. He added, though, that productivity improvements and cost containment had not been enough to offset "the unfavourable effect of inflation, net of price and exchange [rates]".

The company's pre-tax profits were also reduced by the impact of two joint ventures, Mr Gilmartin added, though this was cancelled out by a lower tax rate for the period.

Merck earned after-tax profits of $972m, or 80 cents a share, during the period.

Pfizer, meanwhile, recorded sales of $2.7bn, a rise of 11 per cent from a year before. The growth was supported by a 24 per cent advance in sales of the anti-depressant Zoloft, to $298m, reflecting that drug's success in taking share from the market leader, Prozac. Sales of Zithromax, an antibiotic, climbed 43 per cent to $137m. Other fast-growing new products included Norvasc, a treatment for angina and hypertension, whose sales rose 40 per cent to $426m.

The shift in product mix to more profitable drugs enabled Pfizer to report a 25 per cent advance in after-tax profits, to $394m, or 61 cents a share.

The company said it was "comfortable" with Wall Street's expectations that it would earn between $2.90 and $3 a share for the full year, a level that would reflect both further strong sales growth and margin improvement.

Pfizer's profit margin in the latest period was aided by a 6 per cent fall in its manufacturing costs, to $621m. Research and development spending, on the other hand, climbed 19 per cent, to $422m, reflecting heavier investment in naw products which are in late stages of development.

Lex, Page 14

Recovery continues at US aerospace groups

By Christopher Parkes in Los Angeles

US aerospace and defence groups continued their recovery in the second quarter, with strong earnings which showed the effects of widespread restructuring.

McDonnell Douglas said its progress was marked by especially good results from military aircraft, although commercial jet operations returned lower sales and profits. Teledyne highlighted the performance of its speciality metals division, and General Dynamics reported a sharply improved order book.

Earnings came in around the top end of analysts' forecasts, with McDonnell, for example, reporting net income up 11 per cent at $188m and earnings per share 18 per cent higher at 87 cents.

The results brought earnings per share for the first half to $1.76 – an improvement of 23 per cent over the comparable period of 1995.

Revenues for the quarter, down from $3.9bn last time to $3.3bn, showed the impact of lower deliveries of commercial aircraft. First-half turnover in this division was down almost 50 per cent, at $1.2bn after $2.3bn in the first six months of last year.

While operating income for the quarter was down from $21m to $18m, earnings at this level for the first half were 12 per cent better at $37m.

Revenues from military aircraft sales were unchanged during the quarter and in the first half, with a total of $4bn booked this year to date.

Operating profits, however, improved 19 per cent on both a quarterly and half-yearly basis, to $243m and $493m, respectively.

Net income from continuing operations at General Dynamics rose almost 10 per cent to $67m, while earnings per share increased 9 per cent to $1.06. The Virginia-based group, with a strong presence in the market for warships, said its order book after six months was $9.4bn – 60 per cent bigger than at the same point last year.

First-half earnings were lifted 9 per cent to $2.09 a share, with the net total up by the same proportion at $121m.

Teledyne, which moved to complete its exit from defence markets by agreeing to merge with Allegheny Ludlum, and by selling its military vehicles and defence electronics businesses during the second quarter, said net income rose 22 per cent to $40m, while earnings per share increased from 59 cents to 69 cents a share.

Operating profit in the specialty metals divisions surged 53 per cent to $36m, and the increase for the first half, of 37 per cent to $66m, compared with $48m in 1995. Consumer products also improved sales and margins, while aviation and electronics reported operating income from continuing operations for the year to date down 25 per cent at $22m.

Northrop Grumman, the Los Angeles group which reported on Tuesday, said lower defence spending reduced sales from its aircraft division, but it still managed to increase earnings per share 6 per cent to $1.69 during the quarter.

Net income rose 9 per cent to $98m, bringing the total for the first half to $147m – 11 per cent higher than a year earlier. Earnings per share were up 8.5 per cent at $2.92.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

UK half-hour period ending	Pool purchase price £/MWh (Provisional Prices for Trading on 18.07.96)	Pool purchase price £/MWh (Final Prices for Trading on 21.06.96)	Pool selling price £/MWh
0030	16.28	8.96	8.98
0100	11.56	8.91	8.91
0130	11.66	8.90	8.90
0200	11.53	8.90	8.90
0230	11.65	8.90	8.97
0300	11.53	8.90	8.90
0330	11.55	8.90	8.90
0400	11.65	8.90	8.90
0430	11.65	8.90	8.90
0500	11.56	8.90	8.90
0530	15.66	8.91	8.91
0600	16.32	8.91	8.91
0630	16.32	8.94	8.94
0700	16.57	16.09	17.28
0730	16.80	17.35	18.55
0800	18.67	19.07	20.50
0830	21.29	20.03	21.74
0900	36.07	21.56	23.72
0930	41.37	40.62	43.42
1000	42.56	41.86	44.73
1030	43.31	42.65	45.77
1100	43.83	43.42	46.74
1130	45.96	44.87	48.36
1200	46.70	45.17	46.92
1230	44.89	43.51	46.79
1300	41.38	40.56	43.04
1330	23.84	20.50	22.33
1400	21.11	19.26	20.76
1430	19.28	18.58	19.66
1500	18.86	18.39	19.71
1530	18.64	18.25	19.59
1600	17.90	17.53	18.83
1630	17.84	18.14	19.45
1700	18.58	18.48	19.81
1730	18.44	27.31	28.84
1800	18.24	29.76	31.01
1830	18.08	29.58	30.76
1900	17.37	17.31	18.49
1930	17.36	16.82	18.00
2000	17.36	16.82	18.00
2030	9.08	16.82	18.00
2100	9.02	16.72	17.90
2130	16.83	16.59	17.77
2200	17.39	23.84	25.01
2230	17.38	23.84	25.01
2300	17.01	23.84	25.01
2330	17.01	16.59	17.77
2400	17.01	12.28	13.48

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible]

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Chip equipment makers join forces

By Christopher Parkes

Two small leading-edge technology companies – one from southern California, and one from south Wales – have joined forces to attack the world market for semiconductor chip-making equipment.

Plasma & Materials Technologies, the US concern, is to pay about $145m in cash and shares to acquire Electrotech, a 28-year-old private UK company with annual sales of about $54m.

Although combined revenues last year were a mere $76m, the new partners see almost limitless prospects in a world market worth some $7bn last year.

PMT is a pioneer of plasma etching processes which allow far more circuitry to be packed on to a chip than is possible with conventional acid etching. Electrotech owns a super-efficient method of depositing circuit coatings on the chips.

Mr Chris Dobson, a co-founder of Electrotech, is undaunted by the presence of "monsters" snch as Applied Materials, which sold $2bn-worth of chip-making equipment last year.

But he is also aware that technology alone provides no instant access, no matter how advanced. Mr Gregor Campbell, founder of PMT, also learnt early on that big corporations need both proven technology and international service before they will buy such important equipment from relatively unknown suppliers.

While the technologies are complementary, it was the need for international networks that brought the partners together.

Lack of scale and research and development budgets totalling 20 per cent of sales at each company hampered efforts to move internationally.

PMT, well established in the US and strong in Korea, was relatively sparsely represented in Europe, Electrotech's territory. Both were looking to open distribution and service centres in Japan.

The networks will now be combined and the new company plans to offer full-service distribution wherever the demand may occur.

Banco Bamerindus revamps assets to boost confidence

By Jonathan Wheatley in São Paulo

The group that controls Banco Bamerindus, Brazil's fourth biggest private bank, has restructured its assets in an attempt to regain credibility for the bank, whose image has suffered after months of reports that it faces liquidity difficulties.

The move increases the bank's profitability by giving it control of Bamerindus Seguros, the group's profitable insurance company. The insurance company takes control of Inpacel, an indebted paper mill, while non-performing loans of about R$560m (about US$560m) move from the bank to the group's holding company, Bamerindus Participações.

The group said the restructuring was carried out "with the approval of tha Central Bank and without the sale of Banco Bamerindus or transfer of its control".

Senator José Eduardo de Andrade Vieira, the bank's president, recently said it needed R$1.5bn to balance its books. Its difficulties stem partly from a portfolio of government bonds, including so-called FCVS bonds with a face value of R$1bn. These trade on secondary markets at discounts of about 50 per cent but are entered in the bank's accounts at face value.

"More conservative banks enter [the bonds] at market value," said Mr Jorge Kotani of Lafis, a São Paulo firm of analysts. Bamerindus' provision for non-performing loans, of R$120m for a credit portfolio of R$4.9bn, was also below that of other big Brazilian banks.

Mr Kotani said the bank still had "a big problem with credibility", despite the restructuring. He expected the bank to complete the revamp by selling assets, including Inpacel. If credibility remained low, the group would be forced to sell control of the bank in order to qualify for funds from a government programme known as Proer, which provides low-cost finance for mergers and acquisitions in the industry.

The bank has repeatedly denied reports that control could be sold as part of a rescue package. The bank also declined to comment yesterday on reports that depositors had withdrawn R$2.5bn – a quarter of the bank's deposits – in the past year.

NEWS DIGEST

Bankers Trust well ahead of forecasts

The earnings recovery at Bankers Trust continued in the second quarter of the year with a 66 per cent rise in net income, to $151m, in spite of losses in the copper market. At $1.66 a share, up from 98 cents a year before and $1.51 in the first three months of the year, the latest results comfortably exceeded most market forecasts.

The $23m of copper trading losses, which left the bank with a $22m loss overall in its derivatives business for the period, was cancelled out by other one-off items. The latest results, which owed much to a $35m jump in investment banking earnings, to $108m, lifted Bankers Trust's return on equity for the period to 12.9 per cent. While well below its main rivals, that was up from 11.9 per cent in the preceding quarter and indicated that its profits recovery was continuing, the bank said.

Bankers Trust reached a settlement during the quarter with consumer products group Procter & Gamble, which put an end to a dispute that had cast a cloud over its derivatives business for more than two years. It also reached agreement to buy Wolfensohn, a well-regarded investment banking "boutique".
Richard Waters, New York

Currency rates slow McDonald's

McDonald's, the US fast food company, paid the price for global expansion in its second quarter when shifts in exchange rates ate into profits. Even so, the company reported an 11 per cent increase in net income, to $420.4m, and a 13 per cent rise in earnings per share to 59 cents, beating analysts' forecasts. The shares jumped $1⅞ to $45⅞ in early trading.

Mr Michael Quinlan, chairman and chief executive, said: "As a global company, we are exposed to economic weakness and a negative currency impact from time to time. However, these are short-term issues which do not lessen our enthusiasm for McDonald's long-term global growth opportunities."

In fact, the international side of McDonald's did better than the domestic side. At home, McDonald's continued to suffer from strong competition, and operating income rose by less than 1 per cent. Outside the US, the company's continuing expansion helped lift operating profits 7 per cent – this would have been 11 per cent without the shifts in exchange rates, it said.

McDonald's said the introduction of its new Arch Deluxe burger in May had helped US sales. Elsewhere, Australia, Japan, Hong Kong, the UK and Brazil had done particularly wall.
Richard Tomkins, New York

Sears, Roebuck posts record

Growth at Sears, Roebuck, the second-biggest US retailer, continued in the second quarter, with the latest in a series of big profit increases. Net income was ahead 26 per cent at a record $274m, or 67 cents a share. Growth was driven by an 11 per cent increase in revenues, to $9.13bn.

Sales at domestic stores open a year or more rose 9.4 per cent in the latest quarter. Mr Arthur Martinez, chairman and chief executive, said mall store revenues rose by more than 11 per cent, with sales increases across all categories, including apparel. The off-the-mall HomeLife furniture, Sears Hardware and Sears dealer stores also had strong sales growth, as did the new auto parts stores.

International operations, comprising Canada and Mexico, did less well, widening net losses from $2m to $14m. Sears blamed weak economic conditions and competitive pressures in the two countries.
Richard Tomkins

Spin-off costs drag down Lucent

Lucent Technologies, the telephone equipment business spun off from AT&T in April, saw net profit drop 55 per cent to $72m in the second quarter, in spite of a 6 per cent rise in revenues to $5.4bn. The company said this was partly because of the cost of the spin-off.

Sales of network systems to telephone companies rose 16 per cent to $3bn. Domestic revenues were up 9 per cent, with growth in sales to both AT&T, Lucent's former parent, and to the regional Bell phone companies. The ability to supply both sets of customers was the chief motive for the spin-off, since they are now free to compete in the deregulated US market. International network sales rose 38 per cent, with increased demand in all regions. Sales of consumer products such as handsets dropped 32 per cent to $274m. As previously announced, Lucent is scaling back its consumer operations.

The company said it would change the start of its fiscal year, from January 1 to October 1. This will coincide with the distribution to AT&T shareholders of the 525m Lucent shares still held by AT&T, on September 30.

Lucent's shares rose $1¾ to $37¼ in early trading.
Tony Jackson

Bad debts check Dean Witter

Rising bad debts from credit cards held down earnings at Dean Witter, Discover, the stockbroking and credit card group. It reported a slight increase in net income in the second quarter, from $238m in the same period of 1995 to $239m in the three months to June 30. Earnings per share were up 3 per cent, from $1.35 to $1.39, on a fully-diluted basis. The shares fell $1¼ to $51¾ in morning trading.

Within the total, the securities activities lifted earnings 40 per cent to a record $135m over the same quarter last year, and from $122m in the first quarter of 1996. This made it the seventh consecutive quarter of record earnings by the division.

Offsetting that, the credit services side suffered a fall in net income from $141m a year ago to $103m.

Mr Philip Purcell, chairman and chief executive, said "the industry-wide trend of rising credit card write-offs cut into our overall earnings". The company provided $454m against loan losses in the second quarter, up from $241m in the same period of 1995.

Mr Purcell said the credit card side was taking steps such as setting higher standards for new accounts, reducing credit limits, and imposing higher late fees to offset the rise in bad debts. It was considering raising prices later in the year.
Maggie Urry, New York

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BBV beats expectations with 26% rise

By Tom Burns in Madrid

Banco Bilbao Vizcaya, the biggest Spanish banking group in terms of market capitalisation, reported a sharp increase in first-half profits yesterday.

The bank said it was well ahead of targets set under its "1,000-day plan" to achieve double-digit growth in earnings per share and dividends through to 1997.

BBV lifted net attributable profits to Pta46.1bn ($366m), well ahead of market expectations and 26.4 per cent up on those for the 1995 first half. Pre-tax profits rose 20.1 per cent to Pta88.4bn.

Mr Emilio Ybarra, BBV's chairman, said he was "wholly satisfied" with the bank's performance.

He was confident that growth in the second half would be similar to that of the first, and pre-tax profits for 1996 would be about Pta176bn, against the target of Pta160bn outlined in the "1,000 day" plan.

Growth was fuelled by a 17.1 per cent jump in the net interest margin to Pta200.1bn and by a turnround in treasury operations, which brought profits of Pta25.1bn against losses of Pta248m in the first half last year.

Gains across the board offset a drop in extraordinary income from disposals, from Pta19.5bn to Pta5.8bn, and the impact of increased provisioning, which raised the coverage of bad and doubtful debts to 93.8 per cent of the loan portfolio, up from 75.7 per cent a year ago.

Mr Ybarra said the interim divideod would be raised to Pta47, np Pta5 on last time, and that return on equity stood at 14.5 per cent, up from 12 per cent in June 1995.

Under tbe "1,000-day plan" BBV is due to achieve a return on equity of 15 per cent in December 1997, and Mr Ybarra said this ratio would be surpassed well before then.

During the past six months BBV has consolidated its position as Spain's leading industrial investor by increasing its equity holdings in Repsol, the dominant oil, gas and chemicals group, and in Telefónica, tbe national telecommunications operator.

It is a core shareholder of both corporations and its industrial portfolio, which manages significant positions in a wide range of businesses, has a current market valuation of Pta380bn.

BBV has pushed ahead with an ambitious investment programme in Latin America that commenced last year with the acquisition of bank networks in Peru and in Mexico.

The Spanish bank has recently bought a controlling 40 per cent stake in Banco Ganadero, the main bank in Colombia, and has increased its presence in Mexico with the purchase of two smaller bank networks.

Emilio Ybarra: confident of similar growth in the second half

ING takes control of Polish bank

By Gordon Cramb in Amsterdam

ING of the Netherlands yesterday secured majority control of Poland's Bank Slaski with a Fl 355m ($212m) investment which took its stake to 54.1 per cent.

The purchase, from the Polish finance ministry, comes four years after the Dutch banking and insurance group gained its initial 25.9 per cent holding in the Katowice-based institution.

ING last month agreed to buy a further small parcel and was granted an option to increase this to a majority, in a deal which became the subject of controversy within Poland.

Concerns were raised in parliament about the passing into western control of a bank which is a hig lender to Polish heavy industry. Managers at some of Slaski's 80 branches were also said to be wary of new practices which ING might bring to the bank.

Slaski, with some 1m clients and 6,000 employees, had assets at the end of last year equivalent to Fl 4.2bn and shareholders' funds of Fl 505m. Net profits in 1995 were Fl 157m.

An ING official in Amsterdam said he hoped the Polish parliament bad been convinced "that the purpose and goals were not to change" at Slaski. "We just want to co-operate, and to start bancassurance in Poland." ING has begun selling insurance policies thrnugh Slaski's branches.

The Dutch group, which last year rescued Barings of the UK, has a reputation for expertise in emerging markets. In central Europe, its banking and insurance divisions each have offices in Warsaw and Budapest.

● Robeco, the Dutch fund management group, said yesterday its assets under management rose to Fl 76bn in the first half to June, np by Fl 3.7bn from last December. The group last month agreed to a phased takeover by Rabobank in a further consolidation of the country's financial sector.

Its Robeco fund showed an investment gain in the six months of 14.1 per cent while the strongest performance was put in by the Hollands Bezit fund, which rose 23 per cent.

VEB, a Dutch shareholders' lobby group, this week called for the takeover to be made subject to approval by investors in Robeco's various funds.

SAP set to raise $560m from issue

By Conner Middelmann

SAP, the German business software group, is planning to sell up to 4m preference shares to international institutional investors in a global offering.

The transaction, whicb at the current share price would raise about $560m, is set to become the largest German equity offering this year to date, and the first secondary market offering for a component of Germany's Dax-30 share index.

Proceeds will flow through to German and non-German employees of SAP to finance a maturing employee stock-option programme.

The company issued convertible bonds to some 3,500 of its employees on August 9 1994, whicb contain conversion rights for a total of 4m preference shares with a nominal value of DM5 each. The bonds will become convertible into preference shares on September 30.

A consortium of international banks, headed by joint bookrunners Morgan Stanley and Salomon Brothers, is to place the shares with institutional investors in Europe and the US through a global offering. International book-building will begin on July 30 and close on August 7.

The pre-marketing phase of the offering will coincide with the publication of the company's half-year results on July 25.

The shares will be marketed at or close to the prevailing market price. SAP's shares were quoted at DM207.5 at yesterday's Frankfurt fixing.

There are 10m SAP shares outstanding, which are mostly held by German investors and SAP's founders. The offering represents an 11.9 per cent increase in the public float of the company's preference shares.

SAP is the fourth-largest software company worldwide and the tenth-largest company in Germany, capitalised at more than DM20bn ($13.5bn) and accounting for about 4 per cent of the Dax-30 index. It had revenues last year of about $1.8bn.

Bill 'will limit income', says Mediaset

By Andrew Hill in Milan

Mediaset, the newly quoted Italian television and publicity group, yesterday launched a fresh attack on draft legislation on media ownership, which it now claims could cut the company's annual turnover by up to L1,000bn ($656m).

Immediately after the Italian government approved the bill on Wednesday, Mediaset gave it a guarded welcome, and said it would have an impact of only L150bn-L200bn on annual turnover.

But yesterday Mr Fedele Confalonieri, Mediaset's chairman, held a second press conference in which he claimed the original draft had been changed at the last moment and restrictions on media revenues tightened.

"This is abnormal compared with the rest of the world's antitrust legislation and will have a devastating impact on our accounts," Mr Confalonieri said.

According to Mediaset's legal advisers, the draft law could allow the a new telecoms and television regulatory authority to limit the company's revenues to 30 per cent of overall media income.

Earlier drafts had suggested the authority would only take action if Mediaset tried to expand through takeovers or commercial agreements.

Mediaset controls Italy's three largest commercial television channels and the country's biggest television publicity group, Publitalia, and has annual turnover of some L3,000bn. It was founded by Mr Silvio Berlusconi, the former prime minister who is now leader of the right-wing opposition. Mr Berlusconi's family holding company, Fininvest, still holds 52 per cent of the group, following this month's successful stock market flotation.

The draft law could be substantially altered in parliamentary debate, but as written it could oblige Mediaset to transform one of its three channels into a satellite or cable channel by the end of August 1997, and reduce the proportion of commercial breaks for a trial period.

Under linked legislation, Rai, Mediaset's state-owned rival, would have to change one of its three channels into a regional network.

Mr Antonio Maccanico, the Italian post and telecoms minister, said yesterday he was not worried hy criticism of the bill.

Mr Maccanico bas already said he is prepared to impose the new law by decree if it gets held up in parliament.

Bank Austria ahead 19.5%

By William Hall in Zurich

Bank Austria, the country's biggest, increased its first-half pre-tax profits 19.5 per cent to Sch2.4bn ($229.4m). The strong performance reflected a sharp rise in trading income resulting from the group's activities in the buoyant financial markets.

The core banking business grew far more slowly, reflecting the depressed state of some European economies and strong competition in the domestic market. Net interest income rose 5.4 per cent to Sch6.1bn and net commissions grew 3.3 per cent to Sch1.5bn.

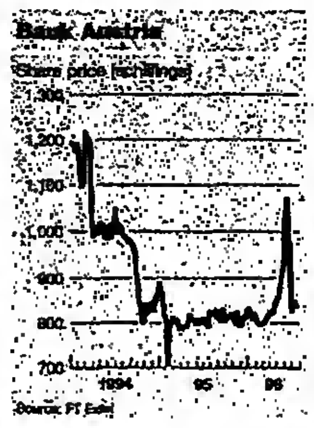
Interest margins have continued to be under pressure, because of the strong local competition and a weak domestic economy – Austria's GDP is expected to grow only 1 per cent this year. Mr Gerhard Randa, Bank Austria's chief executive, was reported to have said yesterday that margins on domestic lending had fallen from 1.9 per cent to 1.76 per cent over the last year and, although the decline had been halted, he felt that anything under 2 per cent was unsatisfactory.

Nevertheless, Mr Randa indicated he was optimistic that the group's full-year result would be higher than last year's Sch2.58bn. The combination of an inflation rate of less than 2 per cent and positive business expectations made him confident loan demand would strengthen in the second half of the year.

The real profit impetus in the first half came from trading activities where the contribution rose by 64.5 per cent to Sch522m. Bank Austria has also kept tight control on costs with operating expenses rising 3.2 per cent to Sch6.4bn.

Bank Austria's international operations showed strong growth with operating income of New York, London and Hong Kong increasing 44 per cent to Sch243m. The central and eastern European operations increased their profits by 18 per cent to Sch142m, led by a 63 per cent jump in the contribution from the Prague operation.

Bank Austria's assets rose 5.9 per cent, to Sch717.8bn, fuelled by growth in international business, which now makes up 33.1 per cent of total assets. The tier-one capital ratio has risen from 7.5 per cent to 8.3 per cent since the end of 1995.



Banks to take stakes in 'electronic purse' venture

By Motoko Rich

Seventeen banks from around the world will subscribe for shares in a new private company being set up to incorporate the assets of Mondex, the "electronic purse" initiative backed by National Westminster Bank and Midland Bank of the UK.

NatWest, which has incurred most of the development costs associated with Mondex since its inception in 1990, is to raise £100m ($155m) from the sale of shares in the new company.

A substantial proportion of funds raised will be retained by NatWest as reimbursement for the development costs, while the balance will be injected as working capital into the embryonic company.

Mondex is a computer chip-based card used for small transactions that do not need to be authorised by the user's bank. The card can be used as a cash replacement to transfer value from one individual to another, and for high street purchases. The 17 banks – from Australia, Canada, Hong Kong, New Zealand, the UK and the US – have already signed up for franchise rights in Mondex and will own shares in Mondex International.

NatWest has earmarked a 33.5 per cent stake in the new company for sale to future franchise holders.

The new company will own the brand and has signed an agreement with NatWest for the global exclusive licence to the intellectual property associated with Mondex. Mr Richard Goeltz, chief financial officer of NatWest Group, said: "This is tangible evidence of the superiority of Mondex."

The international market for electronic purses is being fiercely contested by the leading payment card operators – Visa, MasterCard and Europay. Many of the banks that are buying shares in Mondex International are also conducting trials of rival purses.

One drawback of Mondex is that it does not conform to international standards for chip cards set by Europay, MasterCard and Visa. However, Mondex says it has demonstrated thet manufacturers of retail devices will create interoperable terminals which in effect set standards.

After the new company's incorporation, Mr Tim Jones, chief executive of Mondex, will step down. The board of the new company, which includes representatives from the shareholder banks, will appoint his replacement shortly.

NEWS DIGEST

Deutsche Bank eyes Chase Japan arm

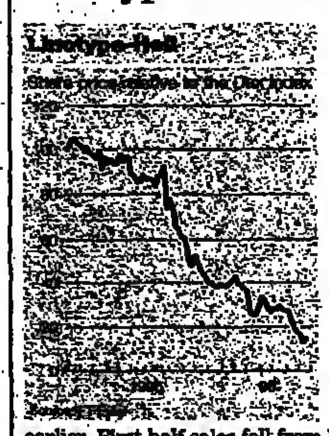
Deutsche Bank is negotiating to buy a Japanese asset management and commercial banking subsidiary of Chase Manhattan, the US bank, in a move aimed at increasing its international presence and earnings power. Germany's largest bank said it was holding talks with the US bank to buy Chase Manhattan Trust and Banking Company (Japan), but gave no details.

This follows the merger of Chemical Banking and Chase Manhattan. Chase and Deutsche Bank will apply to Japan's finance ministry for approval of the deal. Analysts said the deal was not large, at between DM10m and DM100m ($6.73m-$67.3m), but it would give the German bank a licence for asset management and custody business in Japan, where it sees considerable profits potential. Chase will expand its trust business in Japan through Chemical Trust Bank, changing its name to Chase Trust Bank.

Deutsche Bank's shares gained 2 per cent to DM74.30 on the news, which comes after a recent flurry of activity. Last week, it announced a reorganised management structure and the acquisition of a 5.21 per cent stake in Bayerische Vereinsbank worth about DM500m.

Deutsche Bank has been spending aggressively to expand in investment banking, mainly in Europe and the US. But it is also keen to grow further in Asia, where it mainly operates out of Singapore. *Andrew Fisher, Frankfurt*

Linotype-Hell losses deepen



Linotype-Hell, the German printing equipment manufacturer, recorded a net loss of DM31.7m ($21.3m) in the six months ended June 30, compared with a deficit of DM13.9m a year earlier. The company said the loss was in line with expectations. However, it added it had registered a "slight" improvement in business towards the end of the period. In June, new orders were 4.9 per cent behind year-earlier levels. The company had expected new orders in the month to be 7 per cent below a year earlier. First-half sales fell from DM445.9m to DM404.7m. New orders fell to DM423.2m, against DM444.9m, while the order backlog at the end of June totalled DM163.8m, up from DM145.8m a year earlier.

Business in the US, Germany and in some European countries declined, while growth was seen in the UK and Japan. The company said it hoped to reduce its 1996 net loss, after reporting a net loss of DM74.7m in 1995. At the end of June the company had 3,256 employees, 6.6 per cent fewer than a year earlier. *Agencies, Frankfurt*

Holderbank in Brazilian move

Holderbank, of Switzerland, the world's biggest cement producer, has doubled its share of the fast-growing market for cement in southern Brazil with the $200m acquisition of the Companhia de Cimento Portland Paraiso. It plans to merge its Brazilian operation with Paraiso to create the second-biggest cement producer in Southern Brazil.

Paraiso is a family-owned company operating three cement plants with a total capacity of 2.2m tonnes a year. Its main markets are in São Paulo, Rio de Janeiro, Minas Gerais and Espirito Santo, and last year it delivered 1.9m tonnes. Holderbank's Brazilian subsidiary, Ciminas, has production capacity of 3m tonnes and delivered 1.8m tonnes last year.

Based on last year's deliveries, the combined group will have a 16.4 per cent share of the market in south and south-east Brazil, which accounts for about three-quarters of Brazil's 30.5m tonnes a year cement consumption. Holderbank, which will own 86 per cent of the enlarged group, says the acquisition should provide scope for cost savings in distribution and enhance its product range.

The combined group will have a production capacity of 5.2m tonnes and provide a much stronger challenger to Votorantin, the market leader in southern Brazil. Holderbank's Ciminas has annual sales of $221m a year and employs 1,114 staff, while Paraiso has sales of $172m and employs 1,613. *William Hall, Zurich*

France Télécom 'worth FFr147bn'

France Télécom, the state-controlled telecoms operator in which a first batch of shares is expected to be sold by April 1997, is valued at FFr147bn ($29.2bn) in a new report published by BZW, the UK investment bank. BZW said its valuation was based on projected group earnings growth of 10.7 per cent a year over the next five years.

The bank said the company scored well on "simple efficiency measures", such as lines per employee. It did not have "a substantial labour efficiency deficit" to make up ahead of facing full competition in its home market in France in 1998. BZW said if the whole group were floated it would be "comfortably the largest quoted group in France, in terms of both net profits and market capitalisation". The French government has promised to retain a 51 per cent stake, however. *David Owen, Paris*

COMPANIES AND FINANCE: ASIA-PACIFIC/INTERNATIONAL

Reliance plans global petrochemicals growth

By Mark Nicholson in New Delhi

Reliance Industries, India's largest private-sector company, is set to become a "global force" in petrochemicals, according to its founder and chairman, Mr Dhirubhai Ambani.

He told yesterday's annual shareholders' meeting that he expected expansion projects to more than double sales to Rs200bn ($5.59bn) by the end of the century, from the present Rs78bn.

Mr Ambani said the 20-year-old company expected completion of the group's new petrochemicals complex under construction at Hazira, in Gujarat state, to raise total output of petrochemicals, plastics, polymers, textiles and intermediate products to 6m tonnes a year by 2000, from the present 1.5m tonnes.

Mr Ambani made no mention at yesterday's meeting in Bombay of charges laid last week against the group, himself and directors, including his sons Mr Mukesh Ambani and Mr Anil Ambani, alleging the company's complicity in illegal share "switching" and issuance of duplicate shares. The company has denied wilful wrongdoing in the case, due to come before court on October 15, and said it had "adequate and sound defences" to the charges.

Mr Ambani said completion of the Hazira complex, at a total investment cost of Rs95bn, would lead to a "quantum leap" in sales and a "healthy increase in the profitability of the company". Reliance last year reported net profits of Rs13bn on sales of Rs78bn.

Among the group's chief expansion projects, Mr Ambani listed an integrated polyester complex comprising a PTA (purified tetrephthalic acid) plant with planned capacity of 350,000 tonnes a year; a 120,000-tonne MEG (monoethylene glycol) plant; a 60,000-tonne PFY (polyester filament yarn) plant; and PSF (polyester staple yarn) and PET (polyethylene tetrephthalate) plants with outputs of 160,000 tonnes and 80,000 tonnes, respectively.

Mr Ambani said the complex would be commissioned within nine months.

A further 350,000-tonne PTA plant was to be added to the Hazira complex, to be completed by 1997, he said.

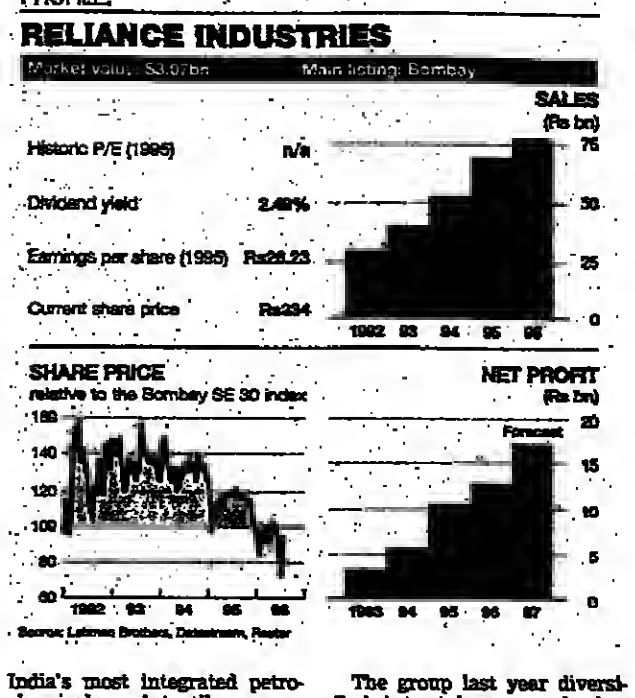
Mr Ambani said construction of an integrated olefins complex at the same site was likely to be completed by April next year.

The complex includes the world's biggest single-stream multi-feed ethylene cracker with output of 750,000 tonnes a year, with associated propylene, polyethylene, PVC and polypropylene plants, with total output of 1.2m tonnes.

Reliance, which is already India's most integrated petrochemicals and textiles group, is also planning upstream oil exploration and development in a joint venture with Enron Oil & Gas of the US, with a view to feeding a planned oil refinery at Jamnagar.

The group last year diversified into telecoms, winning licences to provide cellular and basic telephone services in eight Indian regions. In addition, the group is pursuing three power projects with total output of 1,500MW.

PROFILE: RELIANCE INDUSTRIES



Market rally aids Nomura in first quarter

By Emiko Terazono in Tokyo

Release of first-quarter financial results yesterday by Nomura Securities and Daiwa Securities, two of Japan's leading securities houses, reflected efforts by the industry to increase their disclosure to investors. Most Japanese companies, across all industries, report only half-year and full-year earnings.

Daiwa reported its quarterly earnings for the first time, joining Nomura, which started announcing quarterly figures last year. Other brokers are expected to follow suit, heightening transparency of the companies' business conditions.

For the three months to June, Nomura's unconsolidated recurring profits – before extraordinary items and tax – were 15.4 times those of a year earlier, at Y36.4bn ($335m), owing to a sharp rise in brokerage commissions with the stock market's recovery. During the first quarter of the business year, daily average volume on the Tokyo stock exchange rose 23 per cent, to 499m shares.

Operating profits also surged 15 times to Y36.4bn. Operating revenues rose 52.3 per cent to Y125bn. This was the result of a 74.1 per cent rise in commission revenue to Y85bn, with a 39.6 per cent rise in brokerage commission revenues to Y43.8bn. Profits from bond trading rose 51.2 per cent to Y22.8bn. Operating fees rose 3.7 per cent to Y88.6bn.

Daiwa's recurring profits for the quarter were Y25.2bn, as were operating profits. Quarterly operating revenues totalled Y90.5bn, while commission revenues totalled Y73.2bn, of which Y27.9bn came from brokerage commissions.

Trading profits came to Y8.8bn while interest gains were Y8.5bn. Operating costs were Y65.3bn.

Anglo American gold unit ahead 43% in quarter

By Mark Ashurst in Johannesburg

Anglo American's gold and uranium division has reported a 43 per cent rise in net profit for the quarter ended June 30. The result rose from R225.4m in the previous three months to R323m ($73.6m) as the higher gold price – in rand terms – consolidated gains at the division's deep-level mines.

Mr Bobby Godsell, chairman and chief executive, said the results confirmed the recovery at Freegold, the world's biggest gold mine, where working costs per kg fell 7 per cent in the period.

But analysts were disappointed by a 3 per cent fall in the group's overall gold output to 52,631kg, and sceptical about improvements in productivity. "We have been told to expect 3 tonnes a quarter at Ergo and 10 tonnes a quarter at Western Deeps this year. Both have fallen short for the last two quarters," said Mr David Hall, gold analyst at ING Barings.

The average gold price received rose 9 per cent to R52,867 a kg, while capital expenditure fell 16 per cent to R179.9m. But Mr Godsell said all the mines "were busy with expansion projects", and work on Freddies Number 4 shaft at Freegold, which had been suspended, would resume.

Mr Kelvin Williams, marketing director, warned that the world gold market would "experience problems on the speculative side" as "the precious metals complex" felt the impact of the copper crisis on the commodities market.

But Amgold had gained "well over 80 per cent" of the improvement in the rand gold price during the quarter, despite an extensive hedging programme at Freegold.

This compares favourably with Beatrix, South Africa's most robust gold mine – owned by rival Gencor – where hedging cost Gengold an average $14 against the spot price for the period.

Ergo was the only one of the division's mines to report a quarterly decline, as an 8 per cent rise in working costs and lower average yields offset the higher gold price.

The mine had converted to a December year-end and declared a dividend of 30 cents a share for the quarter.

The interim dividend at Vaal Reefs was 990 cents a share for the six months to June, from 400 cents for the same period last year. At Elandsrand, it rose from 30 cents to 55 cents a share, and at Western Deeps the interim dividend rose from 120 cents to 320 cents.

Indian chemicals company shelves $50m GDR issue

By Mark Nicholson

Gujarat Alkalies, the Indian chemicals group, has postponed a $50m Global Depositary Receipt issue, with both the company and HSBC Investment Bank, the issue's lead manager, citing "current turbulent conditions" in world equity markets for the move.

The issue is the second by an Indian company to be postponed this month. SAW Pipes, the oil engineering group, decided to defer its own $50m issue after a sharp fall in its Indian share price, as Bombay markets marked down oil-related stocks following a 15-25 per cent rise in administered fuel prices.

The issue by Gujarat Alkalies, India's biggest producer of caustic soda, had, like that planned by SAW Pipes, been on the road since June.

Bankers close to both suggest that neither had received the demand the promoters had expected, adding that while market uncertainty – particularly relating to the Indian market before next week's budget – had contributed to the postponements, foreign investors were also proving increasingly selective and quality-conscious in their appetite for Indian paper.

Two earlier GDR and convertible bond issues respectively from Crompton Greaves, the engineering group, and Mahindra & Mahindra, the auto group, were oversubscribed, by nine and five times respectively. But Bombay bankers said the two deferrals suggested that by no means all the 26 Indian companies that have recently announced plans for euro-issues would find backers.

Two further large issues are scheduled to hit the road this month: a $200m GDR issue from ICICI, the state investment institution, lead managed by Jardine Fleming; and a $200m GDR offer from Telco, the truck and carmaker and part of the Tata group, led by CSFB and Merrill Lynch.

In addition, State Bank of India is soon expected to begin roadshows for a $400m GDR issue, to be led by Lehman Brothers and Merrill Lynch.

Telecom NZ denies interest in Telstra

Mr Roderick Deane, Telecom New Zealand chief executive, yesterday ruled out the possibility of the company buying into Australia's state-owned Telstra, Reuter reports from Wellington.

The new Liberal/National government in Australia has said it wants to sell one-third of Telstra within the next three years for about A$8bn (US$6.3bn), but its plans are currently held up in the Senate.

"We'd only be interested in Telstra if one could get a management interest, management control," Mr Deane said after Telecom's annual general meeting.

"They're only selling a third and they've indicated that any individual shareholder's interest will be limited to 5 per cent."

He said that Telecom would only be able to gain a worthwhile interest in Telstra in partnership with other parties.

"It would be a huge undertaking for us and we would only be able to do that in association with other major partners, and neither ourselves nor other major potential partners have any interest in it [Telstra] given that you'd end up with a tiny minority interest," he said.

Mr Deane said there was no point in Telecom gaining anything other than a position of influence in Telstra.

Two US companies, Ameritech and Bell Atlantic, each hold 25 per cent stakes in Telecom New Zealand.

Egyptian bank in $120m issue

An issue of 8.749m Global Depositary Receipts – which could be increased to 10m – for the Commercial International Bank of Egypt was priced yesterday at $11¼ by ING Barings, global co-ordinator and book-runner of the offering, writes Samer Iskandar in London. The transaction could raise up to $120m for National Bank of Egypt, CIB's majority shareholder.

The securities, which start trading on Seaq International today, will be listed on the London Stock Exchange at the end of the month – a first for an Egyptian company.

ING Barings reported strong demand from US institutions, which made up 40 per cent of bids. UK institutions also contributed 40 per cent, while continental European and Middle Eastern investors made up 10 per cent and 8 per cent, respectively.

Siebe to seek pay approval

By William Lewis

Siebe, one of the UK's largest engineering groups, has become the first company to ask its shareholders to approve the pay of its executive directors, following best practice corporate governance guidelines.

At its annual meeting on July 30, shareholders will vote on the report of the appointments and remuneration committee, which sets and discloses all elements of directors' pay.

The pay resolution means Siebe has become the first company to comply with the suggestion made by the Greenbury committee on executive pay.

The Greenbury report, published a year ago, stated that companies' remuneration committees should "consider each year whether the circumstances are such that shareholders should be invited to approve the policy set out in their report".

Companies have limited shareholders' voting to the introduction of long-term bonus schemes, as they are obliged to do under stock exchange rules. The Greenbury committee had expected privatised utilities, in particular, to put their remuneration packages to the vote, but none has done so.

"We are doing it because we like to be ahead, we like to adapt to all new standards as soon as possible," Siebe said yesterday. It refused to comment on whether it thought shareholders would approve the pay report.

Pirc, the corporate governance consultancy which produces reports for clients detailing whether companies are complying with Greenbury, is urging institutional investors to vote for Siebe's pay resolution. "Siebe deserves a lot of credit for this," Pirc said. "It is an example to be encouraged."

US arm floors Telemetrix

By Christopher Price

Losses from a US subsidiary virtually wiped out profits at Telemetrix in the six months to June 30, with the specialised electronic components supplier warning it would make an operating loss for the full year.

The shares fell 18p to 53p.

Interim pre-tax profits of £4.9m were reduced to £200,000 ($312,000) as GTI, the Nasdaq-quoted electronics and networking group in which Telemetrix has a 57 per cent stake, reported heavy losses.

Analysts reduced forecasts of £5m for the full year to losses of about £500,000. Some complained that the market should have been informed earlier about the problems at GTI, which suffered a marked downturn in orders during the second quarter.

GTI lost £3.3m, against profits of £1.8m. Following yesterday's announcement, further rationalisation measures are being undertaken.

FT-SE 100 change

Railtrack, the owner of British Rail's track, signalling and stations, is to join the FT-SE 100 index.

It will fill a gap created by the merger of Sun Alliance and Royal Insurance. Railtrack's place in the FT-SE Mid 250 index will be taken by Serco Group, the facilities and contract management company.

TBI to acquire Belfast airport

By Roland Adburgham, Wales and West Correspondent

A second UK regional airport is to be bought by TBI, the property group. It is making a £100m ($156m) agreed purchase of Belfast International, which was privatised two years ago in a management and employee buy-out.

TBI bought Cardiff International early last year. Mr Stanley Thomas, chairman, said yesterday: "There are significant benefits to ourselves and to our shareholders to be made from owning more than one airport. These benefits include stronger relations with chartered and scheduled operators and freight carriers. The more airports we have, the stronger our negotiating position."

Mr Keith Brooks, chief executive, said the group would seek other airports in the UK, and even outside.

TBI will pay £72.4m and repay £28m of bank borrowings in the deal which, if it gains shareholder approval, is expected to be completed on August 13. BIAHL, the airport company, will pay a £4.5m dividend to its shareholders.

The price compares with the airport buy-out which gave the Treasury receipts of £47.9m. In January, the government blocked the airport's proposed takeover of Belfast City airport on competition grounds.

Mr Brooks, asked if TBI's offer was high in light of renewed troubles in Northern Ireland, said: "We have never built any peace dividend into our appraisal of the business."

Utd Utils to explain scheme

By Jane Martinson and William Lewis

Mr Brian Staples, chief executive of United Utilities, will personally explain the details of his own proposed pay scheme in meetings with the group's large institutional investors over the coming week.

Mr Staples defended his company's long-term incentive plan yesterday and rejected arguments made by the Association of British Insurers that it was "over complex and over generous". At least eight ABI members have said they are planning to vote against the scheme.

In talking to the group's top 25 shareholders before the annual meeting on July 26, Mr Staples will be stressing how demanding he believes the scheme to be.

He said that very few had told the company they opposed the plan but if asked he would talk to them about it.

The ABI's view was wrong, he said, as United complied fully with Greenbury and, in picking the top 50 in the FT-SE 100 index, the comparator group was "more demanding than the one suggested by the ABI".

As a sign of its dislike of the scheme, however, Pirc, the corporate governance consultancy, is advising institutional investors to vote against the re-election of Mr Rodney Leach, a member of the company's remuneration committee.

BT holds 'urgent' talks on regulation

By Alan Cane in Newcastle

British Telecommunications is holding urgent talks with the government on the future regulation of the UK telecoms industry, in an attempt to avoid a damaging confrontation next week with the industry regulator.

BT yesterday received the final version of Mr Don Cruickshank's proposals for controls on its prices and ways of policing its activities to 2001. The proposals are little different from Oftel's earlier consultative document. BT will consider them at its main board meeting on Tuesday.

Mr Cruickshank is proposing that BT limit price increases for residential and small business users to the rate of inflation minus 4.5 percentage points. But he is linking this to a change in BT's licence which would give him wide-ranging powers to identify and counter anti-competitive practices.

Emap wins its battle on wider board powers

By Christopher Price

Emap, the publishing, exhibitions and radio group, yesterday won its battle to implement controversial proposals giving the board wider powers to sack individual directors and to reduce the minimum number of non-executive directors.

At the annual meeting shareholders voted by a majority of 82 per cent, above the 75 per cent required, to approve the adoption of new articles of association.

The changes had been opposed by two dissident non-executive directors. Both Prof Ken Simmonds and Mr Joe Cooka said last night they intended to stay on the board.

The vote was won after assurances from Sir John Hoskyns, Emap chairman, to several key institutional shareholders under what circumstances the rules would be implemented.

Sir John said Emap would always abide by the Cadbury code on the minimum number of directors.

This was interpreted by some investors as meaning a minimum of six directors, three of whom would be non-executive.

Under the new rules, the figure could have been three, only one of whom had to be a non-executive.

Prof Simmonds said he would be asking at the next board meeting for details about the contents of a private letter sent by the chairman to some institutional shareholders who were originally unhappy about the new rules. Emap insisted the letter was simply a restatement of the majority board view.

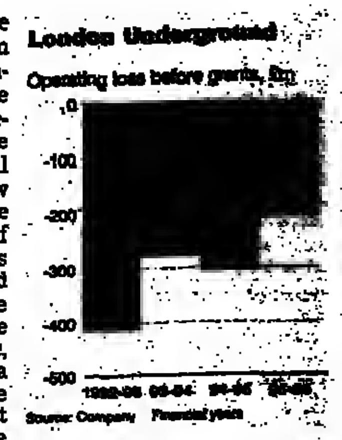
During a heated debate, Sir John was repeatedly called on by shareholders to justify the plan. He said the new rules brought the company in line with many other blue chip groups.

It would also give the board "maximum flexibility should a very grave situation arise" and should action against a certain director need to be taken.

A similar situation may require the reduction in the size of the board. The new rules allow for 75 per cent of directors to dismiss another board member.

LEX COMMENT

London Underground



What is the answer to the current rash of strikes on London Underground? Privatisation. So long as the tube network is a single state-owned monopoly, it will be vulnerable to industrial action. Railwaymen know they can virtually bring the entire capital to a halt. But if London Underground's eleven lines were franchised as separate entities, the unions would no longer have the same stranglehold. True, a strike on, say, the Victoria Line would still cause immense inconvenience. But it would not clog up the whole of London. If only one line were affected, it would also be easier to put in place alternative arrangements – whether by hiring new employees or running buses.

Privatising the tube would not merely reduce strikes. On the evidence of London's buses – which have been progressively franchised over the past decade – it would also boost service standards and efficiency. Money saved through improved productivity could then be used to beef up investment, of which the current system has been starved. Subsidies from taxpayers would still be needed, given the Underground's £212m operating losses before grants. But competitive bidding between prospective franchisees should keep the subsidy down. Bus groups, like Stagecoach, would be obvious candidates. Meanwhile, some of the bigger stations – which are effectively mini shopping centres – could be privatised separately. They could be sold to the likes of BAA or even floated on the market. Fancy buying shares in Oxford Circus?

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alm	Yr to Apr 30	67.3	(32.8)	3.92♥	(0.033)	20.3	(0.2L)	4	Oct 3	3	5.5	4.5
Bolton	Yr to Apr 30	0.533	(1.51)	1.47L	(1.07)	3.8L	(1.5)	-	-	-	-	-
Ellief	Yr to Apr 30	6.34	(4.91)	0.379	(0.07L)	2.8	(0.8L)	0.6	October	-	0.6	-
Greenwich Resources	6 mths to Mar 31	-	(-)	2.19	(0.131L)	1.7†	(0.1L)	-	-	-	-	-
Hi-Tec Sports	Yr to Apr 26 ☆	92.8	(132.1)	2.03	(12.5L♠)	2.5	(26.8L)	nil	-	1.6	nil	1.6
Holders Technology	6 mths to May 31	3.24	(2.52)	0.268	(0.232)	5.71	(5)	2†	Sept 16	2	-	6
Jones Stroud	Yr to Mar 31	81.2	(72.9)	6.59♠	(8.82)	25.49	(26.94)	6.5	Oct 12	6.5	10.5	10
ML Laboratories §	6 mths to Mar 31	2.84	(0.617)	0.083	(1.4L)	0.06	(1L)	-	-	-	-	-
Motor World	6 mths to Apr 28	30.9	(24.9)	2.15	(1.9)	9†	(9.3)	3	Aug 20	2.8	-	8.2
Neill Clerk ф	Yr to Mar 31	4.16	(3.67)	1.04	(0.609)	26.44	(16.17)	4	Oct 1	2	6	4
Oceonics	Yr to Mar 31	15.4	(12.7)	4.1L♠	(5.821L♠)	13L	(42L)	-	-	-	-	-
Saville Gordon (J)	Yr to April 30	38.1	(34.6)	5.8	(6.61)	3.6	(4.5)	1.9	Oct 25	1.9	3	3
Sleepy Kids §	6 mths to Apr 30	0.951	(0.736)	0.325	(0.304)	0.72	(1.01)	-	-	-	-	0.1
Sterling Publish §	Yr to Mar 31	38.6m	(67.6)	3.48L	(9.55L♠)	6.6L	(20.1L)	nil	-	nil	nil	0.75
Stordata Solutions	6 mths to May 31	6.11	(2.5)	0.730	(0.057)	0.6†	(0.1)	0.2	Aug 29	nil	-	nil
TBI	Yr to Mar 31	35.4	(17.6)	10.1♥	(4.13)	3.57†	(3.09)	1	Oct 1	0.18	1	0.18
Telemetrix	6 mths to June 30	69.1	(75.5)	0.171	(4.87)	1	(3.2)	-	-	-	-	1.45
Trifast	Yr to Mar 31	48	(40.6)	5.67	(4.23♠)	23.42	(17.14)	5.8	Sept 2	4.65	8.7	7

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abtrust High Income	9 mths to June 30	-	(-)	-	(-)	-	(-)	1.6	Aug 30	1.6	-	8.2
Edinburgh Japan	Yr to May 31	181	(142)	0.045	(0.027L)	0.2	(0.26L)	nil	-	nil	nil	nil
Gartmore Micro	6 mths to June 30	115.3	(102.9♦)	0.31	(0.343)	0.87	(0.97)	0.5	Sept 13	0.5	-	1.5
M&S Optimum Income	Yr to May 31	107.65	(98.21)	2.48	(2.96)	8.58	(10.22)	2.55⁑	Aug 30	2.15	9.4	8.2
Yeoman	6 mths to June 30	457.7	(454.6)	2.05	(1.74)	8.32	(7.08)	5.5	Sept 13	5.5	-	14.4

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ☆ Comparatives for 15 months. §USM stock. фAim stock. ♦At December 31. ⁑Includes 0.4p special.

IT Senior Appointments

For Banking, Finance & General Appointments please turn to pages 17-19

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IT City Appointments

Treasuries ahead as fears of rate rise ease

By Lisa Bransten in New York and Samer Iskandar in London

The yield on the benchmark 30-year Treasury bond moved below 7 per cent in early trading yesterday as the market interpreted remarks from Mr Alan Greenspan, the chairman of the Federal Reserve, as a signal that the central bank might not raise interest rates next month.

Near midday, the long bond was ⅞ stronger at 88⅝ to yield 6.946 per cent, the two-year note was up ⅛ at 100$\frac{6}{32}$, yielding 6.144 per cent, and the September 30-year bond future was ⅞ higher at 109⅞.

The long bond yield climbed above 7 per cent earlier this month after a strong report on employment growth in June convinced most on Wall Street that an interest rate increase in August was inevitable.

Mr Greenspan did much to ease those worries yesterday when he said there were a number of reasons to expect demand to moderate on its own. Among the reasons he gave was the restrictive effect of the rise in long-term interest rates and the appreciation of the dollar.

Long-term interest rates have risen by nearly 100 basis points since the start of the year, amid a stream of data showing increasing economic activity.

Mr John Spinello, a government securities strategist at Merrill Lynch, said Mr Greenspan's remarks suggested he wanted to be careful not to be too quick to tighten monetary policy.

"I don't think we're writing [an interest rate increase] off," he said. "We're just making it a little less certain."

Bonds paid little attention to a slump in the value of the dollar, which came on the heels of a wider than expected figure on the trade balance in May and speculation that the Fed was less likely to raise rates next month.

GOVERNMENT BONDS

■ Italian BTPs were boosted by bullish inflationary expectations. Liffe's September BTP future rose 1.14 to 116.33. In the cash market, the yield spread over 10-year bunds narrowed by 9 basis points to 313 points.

Market participants were reassured that producer prices had risen by 1.3 per cent year-on-year in May, compared with 2.6 per cent in April.

The national statistics office also said that recent cuts in electricity tariffs would be taken into account in the consumer price index for July, a measure that is expected to reduce the rate of growth of consumer prices by up to 0.2 percentage points.

This could "lead headline inflation down to 3.7-3.8 per cent" in July, economists at Bear Stearns in London said. Some analysts believe this fall in the rate of inflation could justify a cut in interest rates by the central bank.

However, "this is vary unlikely as long as the lira remains weak" on the foreign exchange market, a BTP trader said. The Italian currency has been affected by the dollar's recent weakness. Yesterday it traded in a range of L1,018-1,024 against the D-Mark, and some analysts are predicting further weakness to around L1,050.

■ UK gilts also had a positive session. Liffe's September long gilt future settled at 106$\frac{9}{32}$, up ½. The market followed German bunds higher, and the 10-year yield spread between the two markets remained stable at 167 basis points.

The release of money supply data had no effect on gilts. The year-on-year rates of growth of the M0 and M4 monetary aggregates were unchanged in June at 7.3 and 10.0 per cent respectively.

Vietnam closed-end investment fund planned

By Jeremy Grant in Ho Chi Minh City

Asia-Pacific International Inc (APII), a group of US investors based in San Francisco, plans to set up a $250m investment fund focused on Vietnam and has drafted in a business arm of the Vietnamese Communist party as a possible co-investor.

Dragon Holdings, a closed-end fund, aims to attract US pension funds and to invest in capital-intensive sectors such as building materials, construction, property, consumer goods and distribution.

APII has reached agreements with several operators to manage the projects, with the backing of Dragon Holdings' funds. The companies, which could become co-investors later, include Melbourne-listed China Construction Holdings, 40 per cent owned by the Chinese ministry of construction, and Tung Tai Finance and trading house Jebsen, both of Hong Kong.

"We'd lika to bring out an operator that would like to know more about the market. There are thousands of US companies that would love to take a stab at Vietnam but don't have the heart," said Mr Frank Chinn, APII project consultant. These are likely to be "relatively high risk investors", he added.

Other operators, and potential co-investors, are Vietnam's central bank and Truong An, a unit of the Vietnamese Communist party's powerful central committee, which is understood to have been set up a year ago, reflecting the party's increasing stake in the country's fast-growing economy. Mr Chinn said APII planned to issue 2,500 shares at $100,000 each through a private placement, partly to avoid stock exchange regulations.

BIS to report on OTC derivatives

By Peter John

The world's leading central banks will today reveal a blueprint for greater openness within the $40,600bn market in over-the-counter derivatives.

The G10 working group set up by the 10 largest central banks has established a reporting framework to help allay uncertainty within the highly opaque OTC market.

The report stems from an initiative taken four years ago but given greater urgency by some spectacular derivatives losses from companies such as Procter & Gamble and Metallgesellschaft.

Published by the Bank for International Settlements, its core recommendation is for a six-monthly submission by the 80 leading global financial groups which represent 90 per cent of the market.

The submission will contain the total number of OTC contracts broken down into foreign exchange swaps, currency swaps, purchased options and written options.

That information will be collated by the central banks and analysed by the BIS.

The department of international financial statistics at the BIS said the production of regular reports could give vital clues to the formulation of monetary policy.

"We hope they will show how market participants react in certain times of stress," the BIS said. "For example, how they cover themselves against risk, whether they use derivatives more or less, and whether they act as intermediaries or for themselves."

The proposals fine-tune earlier findings by the BIS, which covered 2,400 financial institutions in 26 countries and gave the first estimate of the OTC market's size.

The BIS, assisted by the International Swaps and Derivatives Association, will now consult potential participants until September.

ISDA chairman Ms Gay Evans said: "Wa recognise that BIS has a need but we are very keen to avoid duplication of data. There are a lot of burdens being put on dealers and back offices at the moment."

If agreed by the market, the proposals will come in to force at the end of next year.

Hutchison raises $1.5bn

By Louise Lucas in Hong Kong

Hutchison Whampoa, the Hong Kong conglomerate controlled by Mr Li Ka-shing, yesterday signed a US$1.5bn long-term loan facility, the biggest corporate borrowing in Hong Kong.

The facility was pullad together by HSBC Investment Bank Asia and Chase Manhattan Asia. Strong support – it has been taken up by 52 banks, the broadest syndication seen in the colony in recent years – prompted Hutchison to raise its initial requirement of $1bn by 50 per cent.

Underwriters' attributed the attraction of the deal to the company's quality management, performance and track record. Pricing is considered tight by the lenders: the interest margin is 0.65 per cent per annum over London Interbank Offered Rate (Libor).

The facility is split into two tranches. The first, for $1.35bn, has a seven-year tenor extendible for two years at the lenders' option. The smaller $150m tranche carries the same coupon and tenor, but the option to extend for two years lies with the borrower.

According to the book-runners, this represents the longest maturity private corporate fund-raising in Hong Kong.

Hyder deal in demand despite divergent ratings

By Conner Middelmann

Although market sentiment picked up yesterday, primary activity in the eurobond sector remained limited, with only a handful of transactions hitting the screens.

In the sterling sector, Hyder, the holding company for the group that owns Welsh Water and Swalec, issued £125m of 20-year bonds.

INTERNATIONAL BONDS

The bonds have unusually divergent credit ratings, with a Baa1 rating from Moody's and an A+ rating from Standard & Poor's – three notches higher.

Nonetheless, lead manager NatWest Markets reported healthy appetite from UK institutions and said the yield spread narrowed by 1 basis point from the launch level of 110 basis points over gilts.

Elsewhere, the Shipping Credit and Investment Corporation of India launched a $150m offering of five-year bonds. The issuer is 50 per cent owned by the Indian government and the deal includes a put option that gives investors the right to redeem their bonds at par if government ownership falls below 35 per cent.

The bonds, which were priced at a spread of 125 basis points over US Treasuries, were pre-marketed and fully placed by the time of launch, said an official at Morgan Stanley, joint lead with SBC Warburg. Investors included US and European high-yield specialists, retail investors and asset-swappers, he said.

Meanwhile, representatives of the Republic of Argentina were in London to promote its forthcoming debut in the sterling market, a £100m five-year eurobond issue expected to be launched on Monday and priced to yield around 380 basis points over gilts.

After raising some $5bn on the international markets – predominantly in US dollars and D-Marks – in the first half of 1996, "our strategy is to diversify and tap as many investment bases as possible," said Mr Joaquin Cottani, Argentina's under-secretary of finance. He said that if Argentina's budget deficit remained on target, it was likely to issue another $2bn of bonds this year.

Elsewhere, Standard & Poor's placed Turkey's foreign-currency ratings – B+ for long-term and B for short-term debt – on CreditWatch with negative implications, causing the yield spreads on the country's two outstanding dollar eurobonds to widen significantly in volatile trading.

The rally in US Treasuries following comments from Federal Reserve chairman Mr Alan Greenspan caused many emerging market bond spreads to widen, but Turkey did worse than most, dealers said.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Korea Exchange Bank(c)	200	[illegible]	100.008	Aug 1997	0.05	-	Chase Manhattan Intl
SCICI(b)	150	8.00	99.944R	Jul 2001	0.50R	[illegible]	M.Stanley/SBC Warburg
D-MARKS							
Depfa International Finance	200	5.75	101.67	Aug 2001	2.00	-	Westdeutsche Landesbank
Dresdner Finance(b)	150	6.25	101.82	Jan 2001	2.00	-	Dresdner Kleinwort Benson
YEN							
JEMIC, No 2(a)‡	12bn	zero	83.47	Jan 2002	0.30	-	Tokyo-Mitsubishi Intl
Inter-American Dev'ment Bank(e)	10bn	2.45	100.00	Aug 2011	0.40	-	Tokyo-Mitsubishi Intl
SWISS FRANCS							
Bayerische Landesbank(d)	100	4.25	103.70	Jul 2001	2.00	-	Credit Suisse
Landesgirokasse Stuttgart(e)	100	4.75	104.85	Jul 2006	2.75	-	Credit Suisse
Landwirtschaftliche Rentenbank	100	4.125	102.65	Sep 2006	2.25	-	Zürcher Kantonalbank
BLFAG	100	4.00	103.00	Sep 2000	1.75	-	Credit Suisse
STERLING							
Hyder(f)	125	8.50	98.38R	Aug 2016	0.625R	+110(8%-17)	NatWest Capital Markets
AUSTRALIAN DOLLARS							
Queensland Treasury Corp‡	100	4.60	92.625	Jul 1999	1.375	-	Nomura International
ECUs							
Eurofima	10bn	7.00	100.707	Sep 1998	1.25	-	SNABSN

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡Unlisted. § Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +22½bp. b) Fungible with DM500m. Plus 200 days accrued. c) Japanese Estate Management Investment Company. d) Fungible with SFr150m. Plus 30 days accrued. e) SFr150m launched 1/7/96 was increased to SFr250m. f) Spens call provision. § Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing, *New York mid-day. Yields: Local market standard.

US INTEREST RATES

[illegible]	[illegible]	[illegible]	[illegible]

BOND FUTURES AND OPTIONS

France, Germany, Italy, Spain, UK, Ecu, US, Japan

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Jul 18	Day's change %	Wed Jul 17	Accrued interest	xd adj. ytd		Low coupon yield Jul 18	Jul 17	Yr. ago	Medium coupon yield Jul 18	Jul 17	Yr. ago	High coupon yield Jul 18	Jul 17	Yr. ago
1 Up to 5 years (22)	122.26	0.05	122.21	2.62	5.12	5 yrs	7.25	7.30	8.04	7.31	7.34	8.04	7.39	7.41	8.14
2 5-15 years (20)	148.63	0.28	148.22	2.11	8.39	15 yrs	8.15	8.15	8.38	8.12	8.16	8.41	8.21	8.24	8.50
3 Over 15 years (9)	161.46	0.40	160.82	3.37	6.43	20 yrs	8.23	8.24	8.40	8.20	8.24	8.43	8.27	8.29	8.50
4 Irredeemables (6)	183.38	0.02	183.34	2.92	8.36	Irred.†	8.29	8.29	8.45						
5 All stocks (59)	142.11	0.22	141.80	2.56	5.87										

Index-linked							Inflation 5% Jul 18	Jul 17	Yr. ago	Inflation 10% Jul 18	Jul 17	Yr. ago
6 Up to 5 years (1)	198.16	0.02	198.15	2.08	4.43	Up to 5 yrs	2.84	2.84	3.30	0.89	0.99	1.52
7 Over 5 years (11)	187.41	0.27	186.90	1.05	2.79	Over 5 yrs	3.77	3.79	3.80	3.54	3.56	3.48
8 All stocks (12)	187.52	0.26	187.03	1.05	2.81							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7⅞%; Medium: 8%-10⅞%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jul 18	Jul 17	Jul 16	Jul 15	Jul 12	Yr ago	High*	Low*
Govt. Secs. (UK)	92.80	92.81	92.62	92.85	93.05	92.26	95.34	91.59
Fixed Interest	112.52	112.48	112.61	112.65	112.55	111.16	115.23	110.74

GILT EDGED ACTIVITY INDICES

	Jul 17	Jul 16	Jul 15	Jul 12	Jul 11
Gilt Edged bargains	109.7	101.0	82.5	73.4	82.2
5-day average	99.8	94.0	78.0	76.3	78.7

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

	Issued	Bid	Offer	Chg.	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK GILTS PRICES

Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Greenspan brings little boost to dollar

By Gillian Tett

The dollar remained the centre of attention in the foreign exchange markets yesterday, as traders watched for the key half yearly testimonial from Mr Alan Greenspan, US Federal Reserve board chairman.

Some economists had hoped his comments would support the dollar. But in practice the US currency reacted nervously to Mr Greenspan's speech.

And though the dollar closed the day in European markets little changed from the previous night's levels, traders warned that the markets remained jittery - and could drive the dollar further down in the days ahead.

■ Mr Greenspan's testimony to the senate banking testimony occurred shortly before the European markets closed.

Consequently, the trading day in Europe was generally quiet as dealers waited for Mr Greenspan's speech.

The dollar weakened slightly against the yen during the day, on the back of data showing a rising US trade deficit.

It closed at Y108.695, compared with Y108.755 the previous day.

However, against the German D-Mark it closed at DM1.4917, slightly up on the previous day's close of DM1.4865.

Nevertheless this rise largely reflected new undertainties about the path of German interest rates, rather than any dollar-specific factors.

■ When Greenspan's long awaited speech did finally emerge, attention switched firmly back to the dollar.

However, his comments initially left many observers split about the direction of US interest rate policy.

Mr Greenspan indicated that he intended to take pre-emptive action to guard against the risk of inflation.

"I am confident that the Federal Open Market Committee would move to tighten reserve market conditions should the weight of incoming evidence persuasively suggest an oncoming intensification of inflation pressures that would jeopardise the durability of the economic expansion," he said.

Some dealers interpreted this as a sign that interest rates would rise soon.

However, others argued that the language was not strong enough to herald an immediate rise.

Mr Kit Jockes, currency strategist at NatWest markets said: "What Greenspan has said has left the markets feeling uncertain - it is nervous that monetary policy may not be tightened in time."

These sentiments left the US currency moving in a fairly small range.

Although it initially rose slightly immediately after the Greenspan comments, it later fell back.

Mr Jockes interprets this as a sign that the dollar is "trying to stabilise."

However, Mr Avinash Persaud, head of currency research at JP Morgan, thinks that the dollar could trend lower soon.

He points out that hopes of an imminent rise in US interest rates have recently been undermined by the fall in US equity markets.

And Greenspan's comments gave little hint that rates were about to rise either, he argued.

"Greenspan's testimony will bring little cheer to the dollar," he concluded.

■ However, aside from the path of US interest rate policy, the other factor that is affecting the relationship between the US dollar and D-Mark is new uncertainty about German interest rates.

A small rise in one of the Dutch central bank rates earlier this week had left the markets speculating that the next move in German rates might be up.

But these assumptions were challenged yesterday after the German Ifo business confidence index recorded 90.4 in June - down from the level of 92.3 seen in May.

This trend provoked new hopes that the Bundesbank might be tempted to cut rates again, to stave off the risk of a broader economic slowdown.

As Mr Persaud said: "The survey has revived hopes that the next move in German repo rates will be down."

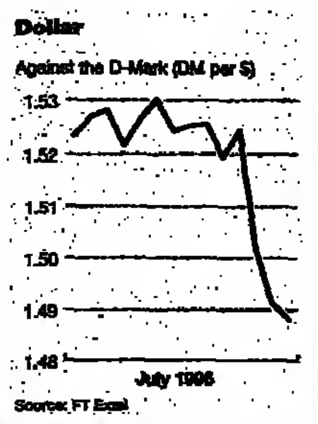
These thoughts not only pushed the dollar slightly higher against the D-Mark, but also boosted sterling.

The British currency closed at DM2.3053 in London trading, up from the previous day's level of DM2.3018.

Against the dollar it closed at $1.5455, compared with the previous day's level of $1.5485.

Dollar

Against the D-Mark (DM per $)



Source: FT Extel

■ **Pound in New York**

Jul 17	—Latest—	— Prev. close —
£ spot	1.5485	1.5455
1 mth	1.5481	1.5451
3 mth	1.5482	1.5452
1 yr	1.5500	1.5477

■ **OTHER CURRENCIES**

Jul 18	£	$
Czech Rp	41.5281 - 41.5832	26.8750 - 26.8990
Hungary	230.314 - 230.776	149.030 - 149.250
Iran	4637.70 - 4635.90	3000.00 - 3000.00
Kuwait	0.4623 - 0.4633	0.2992 - 0.2997
Poland	4.1699 - 4.1786	2.6975 - 2.7030
Russia	7957.57 - 7976.84	5157.00 - 5160.00
UAE	5.6743 - 5.6784	3.6727 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jul 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.2229	+0.0247	137 - 320	16.2580	16.0980	16.1919	2.3	16.1166	2.6	-	-	105.3
Belgium	(BFr)	47.4917	+0.0519	470 - 364	47.5850	47.1330	47.3957	2.4	47.2097	2.4	46.4167	2.3	107.1
Denmark	(DKr)	8.8910	+0.0137	861 - 959	8.9089	8.8141	8.8773	1.8	8.8560	1.5	8.7491	1.6	108.1
Finland	(FM)	7.0193	+0.0222	055 - 212	7.0270	6.9610	7.0105	0.8	7.0024	0.7	-	-	84.8
France	(FFr)	7.8121	+0.0143	080 - 151	7.8298	7.7680	7.7990	1.9	7.7771	1.8	7.6837	1.6	109.7
Germany	(DM)	2.3053	+0.0035	041 - 065	2.3119	2.2898	2.3000	2.3	2.2910	2.3	2.2583	2.3	109.1
Greece	(Dr)	364.665	+0.648	512 - 079	365.403	361.139	-	-	-	-	-	-	67.8
Ireland	(I£)	0.9657	-0.0019	648 - 666	0.9706	0.9637	0.9652	0.6	0.964	0.7	0.9595	0.6	98.9
Italy	(L)	2360.11	-4.1	865 - 157	2368.23	2341.08	2365.88	-2.9	2365.51	-2.6	2398.01	-2.0	78.9
Luxembourg	(LFr)	47.4917	+0.0519	470 - 364	47.5850	47.1330	47.3957	2.4	47.2097	2.4	46.4617	2.2	107.1
Netherlands	(Fl)	2.5880	+0.0021	848 - 871	2.5917	2.5702	2.5799	2.8	2.5679	2.8	2.5202	2.5	107.3
Norway	(NKr)	9.9219	+0.0102	132 - 306	9.9801	9.8347	9.9134	1.0	9.8954	1.0	9.8129	1.1	98.9
Portugal	(Es)	237.242	+0.36	096 - 388	237.724	235.089	237.697	-2.1	238.572	-2.2	-	-	95.2
Spain	(Pta)	194.959	+0.156	825 - 093	195.506	193.956	195.219	-1.6	195.734	-1.6	197.134	-1.1	80.6
Sweden	(SKr)	10.2765	+0.0065	658 - 872	10.2943	10.1945	10.2788	0.0	10.2789	0.0	10.2749	0.0	88.1
Switzerland	(SFr)	1.8941	+0.0036	927 - 954	1.8986	1.8862	1.8901	3.2	1.8823	3.4	1.8201	3.4	112.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.8
Ecu	-	1.2226	-0.0001	219 - 233	1.2249	1.2165	1.2213	1.3	1.2185	1.4	1.2049	1.4	-
SDR†	-	1.06815	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5433	-0.0030	427 - 439	1.5491	1.5378	-	-	-	-	-	-	-
Brazil	(R$)	1.5581	-0.0024	554 - 567	1.5598	1.5482	-	-	-	-	-	-	-
Canada	(C$)	2.1143	-0.0095	133 - 153	2.1240	2.1121	2.1136	0.4	2.1098	0.8	2.1018	0.6	84.1
Mexico	(New Peso)	11.5297	-0.0167	229 - 370	11.5632	11.7519	-	-	-	-	-	-	-
USA	($)	1.5455	-0.0030	450 - 459	1.5495	1.5380	1.5451	0.3	1.5458	-0.1	1.5483	-0.2	95.5
Pacific/Middle East/Africa													
Australia	(A$)	1.9686	-0.0103	906 - 544	1.9719	1.9445	1.9551	-1.6	1.9602	-1.6	1.9854	-1.7	93.1
Hong Kong	(HK$)	11.9572	-0.0232	529 - 614	11.9877	11.9007	11.9491	0.8	11.9375	0.7	11.9177	0.3	-
India	(Rs)	55.3272	-0.1074	020 - 524	55.8690	55.0000	-	-	-	-	-	-	-
Israel	(Shk)	4.9205	-0.0119	160 - 249	4.9395	4.8844	-	-	-	-	-	-	-
Japan	(Y)	167.993	-0.419	895 - 070	168.540	166.850	167.259	5.2	165.768	5.3	158.353	5.1	133.6
Malaysia	(M$)	3.8446	-0.0056	427 - 465	3.8539	3.8262	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2422	-0.0044	404 - 440	2.2488	2.2261	2.2472	-2.7	2.2587	-2.8	2.2905	-2.2	108.0
Philippines	(Peso)	40.4576	-0.0786	172 - 180	40.5340	40.3110	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7963	-0.0112	944 - 981	5.8112	5.7664	-	-	-	-	-	-	-
Singapore	(S$)	2.1930	-0.003	816 - 944	2.1980	2.1820	-	-	-	-	-	-	-
South Africa	(R)	8.7853	-0.0148	795 - 911	8.7982	8.7256	-	-	-	-	-	-	-
South Korea	(Won)	1258.15	-1.36	732 - 898	1260.98	1250.70	-	-	-	-	-	-	-
Taiwan	(T$)	42.5849	+0.1043	184 - 914	42.6522	42.3959	-	-	-	-	-	-	-
Thailand	(Bt)	39.1347	-0.0721	194 - 499	39.2330	38.9470	-	-	-	-	-	-	-

† Rates for Jul 17. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.4972	+0.0363	943 - 000	10.5205	10.4550	10.4777	2.2	10.4357	2.3	10.2522	2.3	105.2
Belgium	(BFr)	30.7300	+0.093	100 - 500	30.7870	30.5660	30.675	2.1	30.58	2.2	30.02	2.3	106.9
Denmark	(DKr)	5.7530	+0.02	510 - 545	5.7638	5.7265	5.7455	1.6	5.7285	1.7	5.6595	1.6	107.4
Finland	(FM)	4.5381	+0.0229	363 - 419	4.5480	4.5170	4.5326	1.7	4.5206	1.6	4.4751	1.4	83.9
France	(FFr)	5.0549	+0.019	544 - 554	5.0665	5.0330	5.048	1.5	5.0337	1.7	4.9659	1.9	109.5
Germany	(DM)	1.4917	+0.0052	913 - 920	1.4951	1.4855	1.4892	2.0	1.4834	2.2	1.4552	2.4	108.8
Greece	(Dr)	235.960	+0.75	930 - 990	237.120	233.730	237.655	-8.5	241.005	-8.5	254.96	-8.1	67.1
Ireland	(I£)	1.6003	+0.0002	993 - 013	1.6022	1.5930	1.6009	-0.4	1.6019	-0.4	1.6023	0.4	-
Italy	(L)	1527.07	-2.93	010 - 123	1526.50	1518.75	1528.42	-1.7	1553.37	-3.4	1556.32	-2.3	75.9
Luxembourg	(LFr)	30.7300	+0.093	100 - 500	30.7870	30.5660	30.677	2.1	30.5705	2.1	30.03	2.1	106.9
Netherlands	(Fl)	1.6733	+0.0046	730 - 735	1.6772	1.6648	1.67	2.4	1.6628	2.5	1.6311	2.5	106.8
Norway	(NKr)	6.4200	+0.019	185 - 235	6.4625	6.3678	6.4171	0.6	6.4115	0.6	6.3751	0.7	87.3
Portugal	(Es)	153.510	+0.53	460 - 560	153.780	152.250	153.825	-2.5	154.415	-2.4	158.56	-2.0	95.1
Spain	(Pta)	126.150	+0.345	100 - 200	126.500	125.700	126.4	-2.4	126.83	-2.2	128.37	-1.8	80.5
Sweden	(SKr)	6.6495	+0.0184	445 - 545	6.6589	6.6175	6.6605	-2.0	6.678	-1.7	6.72	-1.1	88.0
Switzerland	(SFr)	1.2191	+0.0048	188 - 195	1.2213	1.2119	1.2158	3.3	1.2081	3.6	1.1746	3.6	112.2
UK	(£)	1.5455	-0.003	450 - 459	1.5495	1.5380	1.5451	0.3	1.5457	-0.1	1.5483	-0.2	84.1
Ecu	-	1.2641	-0.0024	637 - 644	1.2693	1.2613	1.2649	-0.7	1.2665	-0.8	1.2763	-0.8	-
SDR†	-	0.69789	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9986	-	985 - 987	0.9988	0.9986	-	-	-	-	-	-	-
Brazil	(R$)	1.0089	+0.0004	087 - 070	1.0070	1.0067	-	-	-	-	-	-	-
Canada	(C$)	1.3681	-0.0035	678 - 683	1.3741	1.3678	1.3679	0.1	1.3682	0.0	1.371	-0.2	83.1
Mexico	(New Peso)	7.6545	-0.004	520 - 570	7.6580	7.6500	7.910	-25.3	8.001	-16.1	8.7645	-27.6	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.2
Pacific/Middle East/Africa													
Australia	(A$)	1.2634	-0.0042	628 - 642	1.2643	1.2724	1.2654	-1.9	1.2689	-1.7	1.2876	-1.9	93.8
Hong Kong	(HK$)	7.7370	-	365 - 375	7.7375	7.7365	7.7377	-0.1	7.7395	-0.1	7.7865	-0.4	-
India	(Rs)	35.8000	-	000 - 000	36.0000	35.8000	35.95	-5.0	36.255	-5.1	37.725	-5.4	-
Israel	(Shk)	3.1838	-0.0013	819 - 856	3.1885	3.1772	-	-	-	-	-	-	-
Japan	(Y)	108.695	-0.95	670 - 720	108.860	108.120	108.25	4.9	107.35	4.9	103.61	4.7	134.0
Malaysia	(M$)	2.4877	+0.0012	872 - 882	2.4885	2.4855	2.4898	-0.4	2.4947	-1.1	2.5102	-1.2	-
New Zealand	(NZ$)	1.4507	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Philippines	(Peso)	26.1850	-	800 - 100	26.2100	26.1800	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7507	3.7504	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4190	+0.0008	185 - 195	1.4195	1.4173	1.4165	3.0	1.4095	2.7	1.384	2.5	-
South Africa	(R)	4.3905	-0.001	880 - 930	4.3950	4.3650	4.438	-13.0	4.528	-12.5	4.8655	-10.8	-
South Korea	(Won)	814.100	+0.7	800 - 400	814.400	813.600	-	-	-	-	-	-	-
Taiwan	(T$)	27.5550	-0.014	200 - 900	27.5900	27.5000	27.56	-0.2	27.565	-0.1	-	-	-
Thailand	(Bt)	25.3225	+0.0025	200 - 250	25.3260	25.3150	25.4213	-4.7	25.625	-4.8	26.5075	-4.7	-

† SDR rate per $ for Jul 17. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 17: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

July 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¼	3⅜	3⅝	7.00	2.50	-
week ago	3¼	3¼	3¼	3⅜	3⅝	7.00	2.50	-
France	3⅝	3⅝	3¾	3⅞	4⅛	3.55	-	5.60
week ago	3⅝	3⅝	3⅝	3⅞	4⅛	3.55	-	5.50
Germany	3⅜	3⅜	3⅜	3½	3¾	4.50	2.50	3.30
week ago	3⅜	3⅜	3⅜	3½	3¾	4.50	2.50	3.30
Ireland	5⅝	5¾	5¾	5¾	5⅞	-	-	6.25
week ago	5¾	5¾	5¾	5⅞	5¾	-	-	6.25
Italy	9⅛	8⅞	8¾	8⅝	8⅜	-	9.00	9.30
week ago	10⅛	8⅞	8⅞	8⅞	8⅝	-	9.00	9.30
Netherlands	2⅞	2⅞	3⅛	3⅛	3¼	-	3.00	3.30
week ago	3⅛	2⅞	3⅛	3¼	3⅜	-	3.00	3.30
Switzerland	1⅞	2⅜	2½	2⅝	2⅝	5.00	1.50	-
week ago	2	2⅜	2⅜	2⅝	2⅞	5.00	1.50	-
US	5⅛	5⅜	5⅝	5⅞	6⅛	-	5.00	-
week ago	5⅛	5⅜	5⅝	5⅞	6⅛	-	5.00	-
Japan	⅛	½	⅝	¾	1⅛	-	0.50	-
week ago	⅜	½	⅝	¾	1⅛	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5½	5⅝	5⅝	6⅛	-	-	-
week ago	-	5⅝	5⅝	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.16	5.34	5.46	5.75	-	-	-
week ago	-	5.16	5.35	5.53	5.93	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅛	-	-	-
week ago	-	4⅛	4⅛	4⅛	4⅜	-	-	-
SDR Linked Ds	-	3⅜	3½	3½	3⅝	-	-	-
week ago	-	3⅜	3⅜	3⅜	3⅝	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.

Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 10	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3¼	3¼ - 3⅛	3¼ - 3⅛	3¼ - 3⅛	3⅜ - 3¼	3½ - 3⅜
Danish Krone	4⅜ - 4	3⅞ - 3¾	3⅞ - 3¾	4 - 3⅞	4⅛ - 3⅞	4⅛ - 4
D-Mark	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3½ - 3⅜	3⅝ - 3½
Dutch Guilder	2⅞ - 2¾	3 - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3	3⅜ - 3¼
French Franc	3⅞ - 3⅝	3⅞ - 3⅝	3¾ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 3⅞
Portuguese Esc.	7⅛ - 7⅞	7⅜ - 7⅛	7⅛ - 7⅛	7⅜ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛
Spanish Peseta	7⅜ - 7⅛	7⅜ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛
Sterling	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾	5¾ - 5⅝	5¾ - 5⅝	6⅛ - 5⅞
Swiss Franc	2⅛ - 2	2¼ - 2⅛	2½ - 2⅜	2⅝ - 2½	2⅝ - 2½	2⅞ - 2¾
Can. Dollar	4⅞ - 4¾	4¾ - 4⅝	4⅞ - 4¾	4⅞ - 4¾	5 - 4⅞	5⅛ - 5
US Dollar	5¼ - 5	5¼ - 5	5⅜ - 5¼	5⅝ - 5½	5⅞ - 5¾	6⅛ - 6
Italian Lira	9½ - 9	9 - 8⅞	8⅞ - 8¾	8⅞ - 8¾	8⅝ - 8½	8⅜ - 8¼
Yen	½ - ⅜	½ - ⅜	½ - ⅜	⅝ - ½	1 - ⅞	1⅛ - 1
Asian $Sing	3⅜ - 3⅛	3⅜ - 3⅛	3⅜ - 3⅛	3⅜ - 3⅛	3⅜ - 3⅛	3⅜ - 3⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.07	96.10	+0.04	96.12	96.07	24,114	73,384
Dec	95.92	95.96	+0.05	95.98	95.91	13,632	48,924
Mar	95.72	95.76	+0.05	95.78	95.71	833	29,660

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.68	96.71	+0.04	96.73	96.66	54077	177487
Dec	96.53	96.61	+0.07	96.64	96.53	72040	211784
Mar	96.24	96.35	+0.09	96.37	96.24	46129	153576
Jun	95.89	96.00	+0.10	96.03	95.88	25386	109813

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.85	91.79	-0.19	91.82	91.65	26729	58419
Dec	92.08	92.20	+0.21	92.22	92.09	10233	36131
Mar	92.27	92.36	+0.22	92.36	92.25	3814	21809
Jun	92.27	92.32	+0.19	92.33	92.23	1122	13040

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	97.37	97.40	+0.02	97.42	97.36	6151	34092
Dec	97.24	97.27	+0.03	97.29	97.23	4790	24258
Mar	97.07	97.08	+0.03	97.11	97.07	1241	9379
Jun	96.83	96.81	+0.03	96.84	96.81	36	2246

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	98.97	98.97	-0.02	98.98	98.97	334	n/a
Dec	98.88	98.87	+0.03	98.88	98.86	1290	n/a
Mar	98.37	98.38	+0.03	98.39	98.37	983	n/a

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.58	95.60	+0.01	95.61	95.58	1362	8336
Dec	95.55	95.55	+0.04	95.56	95.53	782	5398
Mar	95.36	95.35	+0.04	95.36	95.33	468	3275
Jun	95.06	95.07	+0.06	95.10	95.06	617	2395

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 18		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.72	16.46	4.864	2.034	4948	5.445	20.89	499.5	410.4	21.65	3.967	2.106	4.451	3.253	353.5	2.575
Denmark	(DKr)	53.41	10	8.786	2.593	1.086	2643	2.908	11.10	266.8	219.2	11.56	2.118	1.125	2.378	1.738	188.8	1.376
France	(FFr)	60.79	11.38	10	2.951	1.237	3008	3.310	12.70	303.6	249.5	13.18	2.412	1.280	2.706	1.978	214.8	1.566
Germany	(DM)	20.60	3.857	3.389	1	0.419	1020	1.122	4.305	102.9	84.56	4.460	0.817	0.434	0.917	0.670	72.84	0.531
Ireland	(I£)	49.16	9.204	8.087	2.386	1	2433	2.677	10.27	245.5	201.8	10.64	1.950	1.035	2.188	1.599	173.8	1.266
Italy	(L)	2.021	0.378	0.332	0.098	0.041	100.	0.110	0.422	10.09	8.294	0.437	0.080	0.043	0.090	0.066	7.145	0.052
Netherlands	(Fl)	18.36	3.438	3.021	0.891	0.374	908.7	1	3.837	91.72	75.37	3.975	0.729	0.387	0.817	0.597	64.93	0.473
Norway	(NKr)	47.86	8.961	7.873	2.323	0.974	2368	2.606	10	239.1	196.4	10.36	1.899	1.008	2.131	1.557	169.2	1.233
Portugal	(Es)	20.02	3.748	3.293	0.972	0.407	990.7	1.090	4.183	100.	82.17	4.334	0.794	0.422	0.891	0.651	70.78	0.519
Spain	(Pta)	24.37	4.562	4.008	1.183	0.496	1206	1.327	5.091	121.7	100.	5.274	0.967	0.513	1.085	0.793	86.15	0.628
Sweden	(SKr)	46.20	8.649	7.599	2.242	0.940	2286	2.519	9.652	230.7	189.9	10	1.833	0.973	2.056	1.503	163.3	1.190
Switzerland	(SFr)	25.21	4.719	4.146	1.223	0.513	1247	1.373	5.266	125.9	103.5	5.456	1	0.531	1.122	0.820	89.12	0.649
UK	(£)	47.49	8.891	7.812	2.305	0.966	2350	2.586	9.922	237.2	194.9	10.28	1.884	1	2.114	1.545	167.9	1.223
Canada	(C$)	22.46	4.206	3.695	1.090	0.457	1112	1.223	4.693	112.2	92.19	4.863	0.891	0.473	1	0.731	79.42	0.579
US	($)	30.74	5.755	5.056	1.492	0.625	1521	1.674	6.422	153.6	126.1	6.654	1.219	0.647	1.368	1	108.7	0.792
Japan	(Y)	28.28	5.295	4.653	1.373	0.575	1400	1.540	5.909	141.3	116.1	6.123	1.122	0.596	1.259	0.920	100.	0.729
Ecu		38.83	7.270	6.388	1.885	0.790	1922	2.114	8.113	193.9	159.4	8.406	1.540	0.819	1.729	1.263	137.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6752	0.6750	-0.0011	0.6759	0.6715	33,048	67,728
Dec	0.6761	0.6788	-0.0015	0.6790	0.6761	655	2,887
Mar	-	0.6830	-0.0019	-	0.6830	252	327

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.9274	0.9298	-0.0019	0.9324	0.9255	21,801	73,510
Dec	0.9380	0.9415	+0.0022	0.9417	0.9380	670	4,154
Mar	-	0.9505	-	-	-	1	141

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.8299	0.8263	-0.0034	0.8295	0.8228	26,683	35,800
Dec	0.8296	0.8328	-0.0031	0.8337	0.8296	941	2,053
Mar	-	0.8425	-	-	-	2	83

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.5460	1.5454	-0.0022	1.5488	1.5370	22,842	54,575
Dec	1.5460	1.5480	-0.0026	1.5470	1.5440	91	1,124
Mar	-	1.5480	-0.0022	-	1.5480	1	6

UK INTEREST RATES

LONDON MONEY RATES

Jul 18	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 5½	5⅞ - 5¾	5¾ - 5⅝	5⅞ - 5¾	5⅞ - 5¾	6⅛ - 6⅛
Sterling CDs	-	-	5¾ - 5⅝	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5⅞
Treasury Bills	-	-	5⅝ - 5⅝	5⅝ - 5½	-	-
Bank Bills	-	-	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝	-
Local authority deps.	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	9 - 5⅞
Discount Market deps	5⅞ - 5⅝	5¾ - 5⅝	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Jul 12, 5.4913pc. ECGD fixed rate Stlg. Export Finance. Make up day Jun 28, 1996. Agreed rate for period Jul 24, 1996 to Aug 25, 1996, Scheme II & III 7.20pc. Reference rate for period Jun 1, 1996 to Jun 28, 1996, Scheme IV & V 5.935pc. Finance House Base Rate 6pc from Jul 1, 1996

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.27	94.28	-0.01	94.30	94.26	14221	86862
Dec	94.17	94.17	-0.03	94.20	94.15	15535	95992
Mar	93.87	93.87	-0.02	93.89	93.84	7260	83985
Jun	93.41	93.44	-0.01	93.47	93.40	5763	44138
Sep	92.96	93.02	+0.02	93.04	92.96	1840	30679

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9425	0.11	0.15	0.15	0.08	0.23	0.53
9450	0.02	0.06	0.08	0.24	0.39	0.71
9475	0	0.02	0.04	0.47	0.60	0.92

Est. vol. total, Calls 1156 Puts 206. Previous day's open int., Calls 128311 Puts 112575

EMS EUROPEAN CURRENCY UNIT RATES

Jul 18	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.237	-0.306	-0.77	1.75	5
Netherlands	2.15214	2.13965	-0.00003	-0.58	1.55	4
Belgium	39.3960	39.2876	+0.0268	-0.28	1.24	2
Germany	1.91007	1.90723	+0.00141	-0.10	1.11	1
Austria	13.4383	13.4228	+0.0122	-0.12	1.08	1
Portugal	195.792	196.227	+0.042	0.22	0.73	-1
Ireland	0.792214	0.799036	-0.001087	0.86	0.10	-6
France	6.40608	6.46174	-0.00194	0.87	0.09	-7
Denmark	7.28580	7.35565	+0.00608	0.96	0.00	-7
NON ERM MEMBERS						
Greece	292.867	301.531	-1.209	2.96	-1.94	-
Italy	2106.10	1943.73	-9.66	-7.71	9.39	-
UK	0.786652	0.826445	+0.000889	5.06	-3.90	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.520	2.91	3.19	-	0.09	0.43	0.69
1.530	2.17	2.51	2.78	0.28	0.69	1.00
1.540	1.48	1.88	2.20	0.60	1.06	1.38
1.550	0.94	1.35	1.68	1.09	1.54	1.88
1.560	0.55	0.94	1.25	1.70	2.11	2.42

Previous day's vol., Calls N/A Puts N/A . Prev. day's open int., Calls N/A Puts N/A

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.19	94.20	-	94.20	94.19	61,308	415,196
Dec	93.90	93.90	-0.01	93.92	93.88	110,920	442,781
Mar	93.78	93.75	-0.02	93.78	93.75	94,041	286,904

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.74	94.73	+0.02	94.74	94.72	463	7,809
Dec	94.54	94.52	-0.02	94.54	94.52	117	1,483
Mar	-	94.40	-	-	-	77	215

All Open Interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Aug	Sep	Oct	Dec	PUTS Aug	Sep	Oct	Dec
9650	0.22	0.25	0.20	0.24	0.01	0.04	0.09	0.13
9675	0.05	0.08	0.07	0.11	0.09	0.12	0.21	0.25
9700	0.01	0.02	0.02	0.04	0.30	0.31	0.41	0.43

Est. vol. total, Calls 20118 Puts 16314. Previous day's open int., Calls 288808 Puts 303983

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9750	0.07	0.10	0.12	0.17	0.33	0.54
9775	0.02	0.04	0.06	0.37	0.52	0.73

Est. vol. total, Calls 1150 Puts 0. Previous day's open int., Calls 9240 Puts 5052

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9175	0.22	0.82	0.89	0.18	0.17	0.22
9200	0.11	0.46	0.66	0.32	0.25	0.30
9225	0.06	0.32	0.50	0.52	0.37	0.39

Est. vol. total, Calls 3622 Puts 867. Previous day's open int., Calls 53634 Puts 39072

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	5.75
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	Scottish Widows Bank	5.75
Bank of Baroda	5.75	Girobank	5.75	TSB	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	United Bank of Kuwait	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Unity Trust Bank Plc	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Western Trust	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Whiteaway Laidlaw	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75	Yorkshire Bank	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	5.75	Meghraj Bank Ltd	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	• Mount Credit Corp	6.00		
Cyprus Popular Bank	5.75	NatWestminster	5.75		
		●Rea Brothers	5.75		

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COMMODITIES AND AGRICULTURE

Former LME chairman defends clearing system

By Kenneth Gooding, Mining Correspondent

A spirited defence of the London Metal Exchange's unique way of operating – which has been called into question by some commentators in the wake of the Sumitomo scandal – has been launched by Mr Christopher Green, a former chairman of the exchange and now chairman of Barclays Metals, a clearing member of the exchange and part of the UK banking group.

He points out that Sumitomo has not defaulted, in spite of claiming losses of $1.8bn, nor has any member of the LME, nor has any other Sumitomo counterparty. "The LME's systems, and its clearing system in particular, have operated in exemplary fashion. In fact, the only ground for questioning the LME's clearing system seems to have been that it happens to be different from that of all other so-called futures markets."

Mr Green suggests the LME has become the principal base metals exchange because of its clearing system, which is particularly suited to an industry where producers are relatively few and usually financially strong and for materials that are more or less immutable and can be stored for a long time.

The system was introduced in May 1987 and was influenced by lessons learned after the Hunt brothers attempted to corner the global silver market. Its principal singularity is that forward profits are not paid out until contracts reach their due date for settlement.

"The speculative investor is thus denied the advantage of receiving profits in advance. And industry – the miners, smelters, fabricators etc – is saved from becoming, at times of market stress, the unwitting financier of these investors."

Writing in his Copper Letter to clients, Mr Green says: "The changes have been beneficial to industry. Customers know that their own approved LME trading partner or broker can not now be bankrupted by the default of any other clearing member(s) since all contracts between such members are promptly novated to the clearing house."

The security of the LME system has generated tremendous confidence and resulted in a substantial improvement in the exchange's turnover and liquidity.

"There is surely no reason whatsoever for the LME to change its system to one which is not geared to the interests of industry and which clearly panders instead to the interests of speculation. Moreover, a cash cleared system did not prevent the collapse of Barings [Bank] nor prevent Metallgesellschaft from getting perilously close to bankruptcy over oil dealings on Nymex."

Mr Green insists that if, "by whatever absurd reasoning," the LME was forced to switch to a cash clearing system, "the results would be catastrophic," not just for the exchange but also for the metals industry.

Christopher Green says the system operated in "exemplary fashion"

Soaring wood pulp demand forecast

By Deborah Hargreaves

World supply of wood pulp will have to increase by 85 per cent to 1.3bn cubic metres in the next 50 years to keep up with demand, according to a study by the International Institute for Environment and Development.

The study forecasts that production of wood from industrial plantations – rather than naturally-growing forests – will rise by 30 per cent from 1.8bn cubic metres in 1995 to 2.3bn cubic metres in 2045.

Much of this increase will occur in so-called "emerging regions" where countries such as Chile, Brazil, New Zealand, Indonesia, South Africa, Spain and Portugal are planting fast-growing exotic species. But industrial wood from the former Soviet Union will also rise in importance to make up 35 per cent of total output in 2045 from 22 per cent last year.

The report suggests that the continued rate of growth in demand for wood fibre for pulp will be met over the next 50 years, but that there will be considerable upward pressure on pulp prices. These are extremely volatile and halved earlier this year from a peak of $1,000 a tonne last September.

The institute believes that price pressures will stimulate more intensive forest management, but also encourage producers to reduce the fibre content of final products. The report argues that additional environmental constraints on forestry could restrict the amount of pulp available to meet demand.

The authors expect increased exports of pulp from eastern Europe and Russia to Europe and Asia with more of North America's output going to the domestic market.

Towards a Sustainable Paper Cycle: Available from the Alpha Centre, Upton Road, Poole, BH17 7AG.

Randgold plans low cost refining experiment at its Harmony mine

By Kenneth Gooding, Mining Correspondent

Randgold, the South African group, is to use a new technique to refine gold produced at its Harmony mine. Not only should this cut costs dramatically but the group also hopes to receive government permission to market its own, branded gold directly to international customers. It also wants to establish a jewellery manufacturing business – using its own gold – in South Africa.

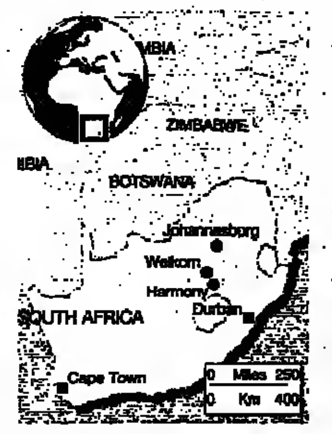
Mr Peter Flack, chairman, who says he learned his marketing techniques from Mr Anton Rupert, head of the Rembrandt group, which includes the Rothmans, Dunhill, Cartier brands in its portfolio, says he feels sure the "Harmony" and "Durban Deeps" brands could be used for the group to sell small gold bars internationally.

A Korean distributor is already keen to take the bars and Harmony is being offered 1 per cent above the free market price for its gold from an Italian jewellery manufacturer.

Randgold is also keen to establish a jewellery manufacturing business in South Africa, with an international partner, and will also seek Treasury permission for this new business to buy its gold directly from the Harmony mine.

Since he was installed with a new management team at Randgold by a disaffected shareholder group two years ago, Mr Flack has gained a reputation for breaking away from South African mining house traditions.

This latest innovation is being considered because "we can't just concentrate of cutting costs, we must also increase revenue".



Harmony and Mintek, the South African government sponsored technology group, will build a pilot plant to refine the mine's gold to 99.99 per cent purity.

The plant will use a novel solvent-extraction method developed by Mintek for the chemical refining of gold. This technique was specifically designed for smaller-scale applications and is claimed to offer substantial cost advantages over traditional refining methods while still producing high-quality gold.

Mr Bernard Swanepoel, Harmony's managing director, suggests the method could cut the mine's smelting and refining costs from R260 to R30 a kilogram – representing a saving of nearly R5m a year. The cost of establishing a refinery and buying the Mintek technology would be about R3m.

"This saving will have a significant effect on Harmony's cost structure, which in turn will have very positive implications for the long-term future of the mine," he says.

Mintek will operate the pilot plant, with a capacity of 5kg a day, for six weeks to prove the process and, if this is successful, it will build a commercial scale refinery with a capacity of 2 tonnes of gold a month – roughly equivalent to the total output of Harmony and its associate Unisel. Construction and commissioning will take about a year.

As South Africa's entire production is at present processed by Rand Refinery, the Harmony plant would be only the second gold refinery to be established in South Africa.

Current South African exchange control regulations require all mines to sell their gold to the Reserve Bank, the country's central bank.

Harmony's gold production at present earns about US$282m a year in foreign exchange. Mr Swanepoel says this could be increased substantially if the middlemen in the refining, fabricating and selling processes could be eliminated and a small premium added to the metal's selling price.

He points out that, in spite of being the world's biggest gold producer, South Africa has an underdeveloped gold jewellery industry. There are only 250 small manufacturers producing 4.2 tonnes of gold jewellery a year – only 0.2 per cent of world production.

Brazilian coffee frost fears return

A meteorologist at a leading US brokerage yesterday reiterated his forecast that a frost was likely in the southern fringes of Brazil's coffee belt early next week, reports Reuters from New York.

Smith Barney meteorologist Mr Jon Davis said temperatures would drop to freezing levels in the southernmost growing regions next Monday or Tuesday, which would probably cause some damage to coffee trees.

Falconbridge less bullish on nickel demand outlook

By Robert Gibbens in Montreal

Falconbridge, the western world's second biggest nickel producer, has reduced its bullish estimates future world metal demand.

Mr Joseph Laezza, vice-president marketing, told analysts here this week that nickel demand would be flat this year after 1995's 20 per cent increase and western consumption alone would gain 1 per cent in 1997. Most 1997 estimates have ranged up to 4 per cent.

Mr Laezza still expected cash nickel to hit US$4 a pound on the London Metal Exchange by the end of the year, up from about US$3.25 now. But he warned that Russian exports and pessimism among stainless steel producers might well exert temporary downward pressure.

For the past two years Falconbridge has been highly optimistic about world nickel demand growth. It is bringing in the C$400m high-grade Raglan mine in northern Quebec for early 1998 start up.

Kazakhstan misses deadline for repaying Placer deposit despite 'constructive' talks

By Bernard Simon in Toronto

Kazakhstan has failed to meet a deadline for repayment of a US$35m deposit put up last year by Placer Dome, the Canadian mining group, for an interest in the Vasilkovskoye gold deposit.

A Placer official said this week that Kazakhstan was technically in default but that the parties were "in continuous contact to discuss how this payment can be made".

The outcome of the talks are widely seen as a test of the business climate in Kazakhstan, which has been wooing foreign investors.

Placer withdrew from the Vasilkovskoye project last year, and the interest-free deposit was due to be repaid by July 4.

The Placer official described the talks, which are being conducted through lawyers in London and Paris, as "constructive". They are understood to centre on the timing of repayment. The Kazakhs were expected to repay Placer out of a payment due from a consortium of Canadian companies that earlier this month agreed on the principal terms to acquire an 80 per cent stake in Vasilkovskoye.

Mr Norman Keevil, chairman of Vancouver-based Teck Corporation, the leading member of the consortium, said the group offered to pay Placer Dome directly, but was turned down by Kazakhstan's lawyers.

Teck and its partners paid $5m at the time of signing the interim licence, and are due to come up with another $30m on completion of due diligence. The latter payment was initially scheduled for November, but has been brought forward to mid-August.

The remaining $50m of the acquisition price is due to be paid at the start of construction, scheduled for next spring.

Vasilkovskoye has proven reserves of 6.5m ounces, making it one of the world's biggest undeveloped gold deposits. But exploration and development have been delayed by a series of aborted negotiations between the government and various mining groups.

Other members of the Teck group are Vancouver-based First Dynasty Mines and Bakyrchik Gold, both of which are led by Mr Robert Friedland, the Singapore-based mining entrepreneur.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1440-1	1476-7
Previous	1436-37	1473-74
High/low	1442	1488/1475
AM Official	1441.5-2.5	1478-8.5
Kerb close		1475-6
Open int.	238,706	
Total daily turnover	32,323	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1232-7	1268-70
Previous	1222-26	1258-60
High/low		1275/1258
AM Official	1230-2	1263-5
Kerb close		1270-2
Open int.	4,613	
Total daily turnover	1,080	

■ LEAD ($ per tonne)

Close	780-1	792-2.5
Previous	768.5-7.5	779-80
High/low	772/771	797/780
AM Official	771-2	782-3
Kerb close		797-8
Open int.	30,181	
Total daily turnover	7,233	

■ NICKEL ($ per tonne)

Close	7075-85	7190-95
Previous	7075-85	7190-200
High/low	7095/7090	7260/7170
AM Official	7095-6	7205-10
Kerb close		7210-20
Open int.	42,494	
Total daily turnover	9,542	

■ TIN ($ per tonne)

Close	6200-10	6250-55
Previous	6190-200	6240-45
High/low		6260/6240
AM Official	6193-4	6240-45
Kerb close		6250-60
Open int.	16,152	
Total daily turnover	3,900	

■ ZINC, special high grade ($ per tonne)

Close	989.5-90.5	1017-8
Previous	987.5-8.5	1015.5-16
High/low	989	1020/1016
AM Official	988.5-9.0	1017-8
Kerb close		1019-20
Open int.	68,049	
Total daily turnover	11,739	

■ COPPER, grade A ($ per tonne)

Close	1952-7	1872-4
Previous	1952.5-57.5	1870-75
High/low	1952	1895/1860
AM Official	1951-2	1867-8
Kerb close		1872-3
Open int.	198,548	
Total daily turnover	47,724	

■ LME AM Official £/$ rate: 1.5450
LME Closing £/$ rate: 1.5479

Spot: 1.5483 3 mths: 1.5480 6 mths: 1.5488 9 mths: 1.5498

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	88.05	-0.55	88.70	87.50	656	2,433
Aug	88.25	-0.60	88.50	88.20	215	2,287
Sep	88.05	-0.40	89.15	87.20	2,635	19,832
Oct	87.75	-0.30	87.75	87.75	46	1,328
Nov	87.75	-0.20	87.90	87.00	12	1,097
Dec	87.35	-0.35	88.00	86.90	617	13,007
Total					4,219	56,974

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	383.50-383.90		
Opening	383.80-384.20		
Morning fix	383.85	248.624	467.030
Afternoon fix	384.00	248.431	466.944
Day's High	384.50-384.90		
Day's Low	383.20-383.60		
Previous close	383.40-383.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.35	6 months	3.95
2 months	4.32	12 months	3.94
3 months	4.30		

Silver Fix	p/troy oz.	US cts equiv.
Spot	323.85	500.00
3 months	327.90	506.20
6 months	331.65	512.65
1 year	340.56	526.60

Gold Coins	$ price	£ equiv.
Krugerrand	393-396	254-256
Maple Leaf	392.95-395.40	-
New Sovereign	87-89	56-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LCE (£ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1115	+10	1115	1100	348	1,512
Aug	1115	+9	1115	1095	175	858
Sep	1150	+13	1150	1137	21	358
Oct	1245	+15	1245	1230	70	1,443
Jan	1250	+6	1250	1250	21	282
Apr	1255	+2	-	-	-	147
Total					640	4,619

	Close	Prev
BFI	1108	1107

FUTURES DATA
All futures data supplied by CMS.

Wool
Where there is any guidance on wool prices when no auctions are being held, they can be described as steady. Merchants and processors attempting to trade suggest that firmness is to strong a word to use. New business is almost no-existent, and any discussion of possible prices has to involve cutting margins so severely that only forced sellers are likely to accept bids offered. Holidays, which in Europe involve near-complete closures in one country or another right through till the end of August, inevitably also keep demand at a low ebb. Unusually, UK traders are still finding that the home market is moor cheerful than the normally important Continental market. Deliveries from current production are going out well, and are being specified beyond the holiday period. There have been some forward orders placed, mainly in the carpet sector.

SOFTS

■ COCOA LCE (£/tonne)

[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	113.90	+1.20	114.70	111.00	270	12,045
Nov	111.55	+1.65	110.80	109.45	49	3,372
Jan	111.50	+1.70	111.50	109.50	68	4,083
Mar	112.85	+0.80	112.80	112.50	23	541
May	114.35	+0.60	114.45	114.25	1	201
Jul	115.70	+0.20	114.75	114.75	1	164
Total					412	20,899

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jul 18	Jul 17	month ago	year ago
1964.0	1967.5	2041.2	2231.2

■ CRB Futures (Base: 1967=100)

Jul 17	Jul 16	month ago	year ago
246.60	247.91	na	na

■ GSCI Spot (Base: 1970=100)

Jul 17	Jul 16	month ago	year ago
203.16	206.07	na	173.96

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — Puts —

■ ALUMINIUM (99.7%) LME

[illegible]

■ COPPER (Grade A) LME

[illegible]

■ COFFEE LCE

[illegible]

■ COCOA LCE

[illegible]

■ BRENT CRUDE IPE

[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]

■ NATURAL GAS (Pence/therm)

[illegible]

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

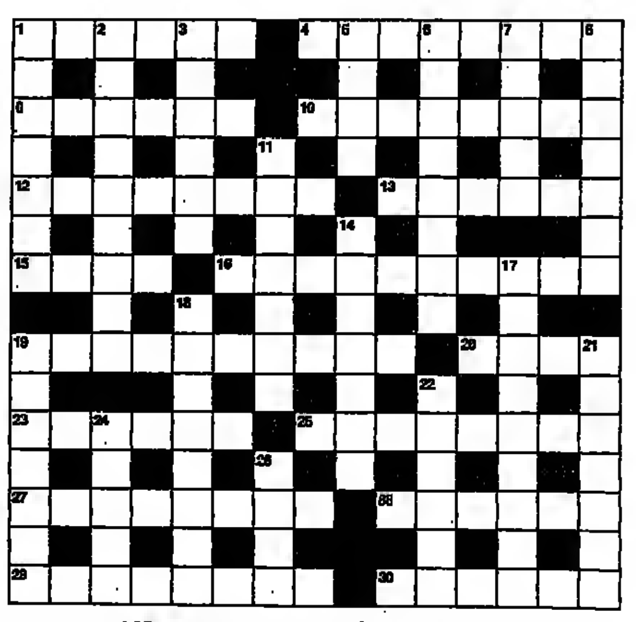
Gold (per troy oz)♣	$383.70	+0.15
Silver (per troy oz)♣	499.50c	-10.0
Platinum (per troy oz.)	392.75	+0.73
Palladium (per troy oz.)	$132.50	+0.25
Copper	95.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.15r	-0.10
Tin (New York)	280.50	
Cattle (live weight)	100.23p	-1.04
Sheep (live weight)	112.68p	+0.60
Pigs (live weight)†	112.45p	-8.01
Lon. day sugar (raw)	$315.90	+1.10
Lon. day sugar (wte)	$363.70	+0.90
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Aug)♥	90.00p	
Rubber (Sep)♥	90.00p	
Rubber (KL RSS No1)	333.50m	+2.50
Coconut Oil (Phil)§	775.00w	-5.0
Palm Oil (Malay.)§	$470.0	
Copra (Phil)§	$506.0w	
Soyabeans (US)	223.0w	-3.0
Cotton Outlook 'A' index	79.90c	-0.20
Wooltops (64s Super)	430p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Sep. w Jul/Aug. z Aug/Sep ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,448 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,124 Set by DANTE



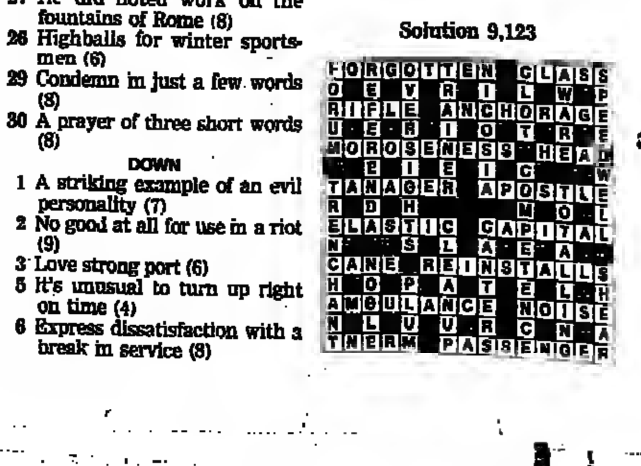
ACROSS

1 Pound added by fellow to the capital (6)
4 Continues to make money (8)
9 Careful opening bid for a chest (6)
10 Prefers a French word in the prose translation (8)
12 Just the chap for transplanting trees (6)
13 Lorraine's companion in France (6)
15 Castle in the air (4)
16 Don't remain wholly calm (2,2,6)
19 He has a job to discover the facts (10)
20 She's found in a wild rave (4)
23 Industrial outgoing (6)
25 Air force admiral (9)
27 He did noted work on the fountains of Rome (8)
28 Highballs for winter sportsmen (6)
29 Condemn in just a few words (8)
30 A prayer of three short words (8)

DOWN

1 A striking example of an evil personality (7)
2 No good at all for use in a riot (9)
3 Love strong port (6)
5 It's unwise to turn up right on time (4)
6 Express dissatisfaction with a break in service (8)
7 Run out of pictures for mounting (5)
8 Nursing nuns (7)
11 Improve, though in a negative way, perhaps (7)
14 Looked angry when let down (7)
17 Tribe seek to rise under many a brave leader (9)
18 Bottom leant after defender (8)
19 Places visited on holidays, or between holidays (7)
21 Made a move to train as a mechanic (7)
22 But his faith is firm (6)
24 Used by bowman leading Don Quixote's horse (5)
26 In which I combine style and elegance (4)

Solution 9,123



FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

UK Post Address 0800 414181 Jersey 01534 71696

Private Clients 0800 414181 00 352 250404250

From O'seas (44) 1732 777377 Hong Kong (852) 848 1000

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
A$ Accum			A$18.667		+0.004	8.40
ASch Accum			Sch247.62		+0.02	2.20
C$ Accum			C$18.863		+0.002	3.80
DM Accum			DM38.125		+0.002	2.10
DFl Accum			Dfl31.329		+0.001	1.70
ECU Accum			Ecu13.380		+0.005	3.30
FFr Accum			FFr86.010		+0.005	2.80
HK$ Accum			HK$120.02		+0.02	4.20
Lire Accum			L23100		+6	6.30
NZ$ Accum			NZ$20.050		+0.008	8.20
NKr Accum			NKr111.57		+0.01	3.30
S$ Accum			S$25.382		+0.001	7.30
SPta Accum			Pta2804.0		+0.5	0.40
£ Accum			£12.978		+0.002	4.70
SKr Accum			SKr118.80		+0.01	4.70
SFr Accum			SFr26.328		+0.001	1.10
US$ Accum			$23.268		+0.002	4.40
Yen Accum			Y2663.7		—	0.10

Prices for dealing July 18

Jupiter Tyndall (Bermuda) Ltd

[illegible]

Orion Fund Limited

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

Butterfield Management Co Ltd

[illegible]

Integral Bond Arbitrage Fund Limited

[illegible]

Orbis Investment Management Ltd

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Lloyds Intl Money Market Fund Ltd

Sarnia Hse, Le Truchot, St Peter Port 01481 724983

Lloyds Bank Fund Managers (Guernsey) Ltd

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Australian Dollar ф			A$25.383		+0.040	6.606
Canadian Dollars ф			C$29.306		+0.030	3.870
Deutschemarks ф			DM82.125		+0.000	2.408
Dutch Guilders ф			Dfl35.880		+0.022	2.011
ECUs ф			Ecu28.671		+0.006	3.429
French Francs ф			FFr186.502		+0.010	2.860
Italian Lire ф	0		L26084.740		+3.000	8.677
Japanese Yen ф			Y3380.969		+0.080	0.163
New Zealand Dollar ф			NZ$34.253		+0.010	8.980
Norwegian Kroner ф	5		NKr101.511		+0.030	5.790
Portuguese Escudos ф			Esc2788.077		+0.600	8.052
Spanish Pesetas ф			Pta2571.226		+0.520	6.607
Sterling Class ф			£30.580		+0.040	4.913
Swedish Kronor ф	0		SKr103.307		+0.028	4.827
Swiss Francs ф			SFr30.680		+0.003	1.534
US Dollar Class ф			$41.839		+0.005	4.593
Managed Sterling			£19.233		+0.028	6.880
Managed US$			$25.440		+0.008	6.380

Dealing daily

M & G (Guernsey) Ltd

Westbourne, The Grange, St Peter Port 01481 722803

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Island Global Fd	0		1822.5	1932	+27.3	0.88
Island Gold	5		4427.5	4693.3	+58	0.06
(Accum. Units)	0		8433.4	8939.4	+101.1	0.00
Island UK Fd	0		1004	1064.2	+14	3.62
(Accum Units)	5		2418.5	2563.4	+3.5	3.62

Prudential Fund Managers (Guernsey) Ltd

Po Box 81, St Peter Port Guernsey 01481 707000

Prudential Money Funds Ltd

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Managed Sterling			158.8	158.9	+0.4	4.05
Managed Dollar	5		$14.37	14.38	-0.02	3.78
Dollar Deposit			$10.08	10.09	—	3.70

Rothschild Asset Management (CI) Ltd

PO Box 242, St Peter Port, Guernsey 01481 7197473

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BREWERIES, PUBS & REST

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING & CONSTRUCTION

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING MATS. & MERCHANTS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHEMICALS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHEMICALS - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DISTRIBUTORS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DIVERSIFIED INDUSTRIALS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRICITY

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRONIC & ELECTRICAL EQPT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENGINEERING

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENGINEERING - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENGINEERING, VEHICLES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXTRACTIVE INDUSTRIES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXTRACTIVE INDUSTRIES - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOOD PRODUCERS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOOD PRODUCERS - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HEALTH CARE

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HOUSEHOLD GOODS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INSURANCE

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INVESTMENT TRUSTS

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INV TRUSTS SPLIT CAPITAL

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

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Buy programme and US optimism lift shares

By Steve Thompson, UK Stock Market Editor

Talk of a substantial programme trade carried out just before the close by UBS and weighted on the buy side gave a final flourish to UK equities yesterday, pushing the FT-SE 100 index back within striking distance of the 3,700 level.

Earlier, the London market had made excellent progress on the back of another strong performance by Wall Street overnight, and an equally good showing by the US market at the outset of trading yesterday.

The early strength in the Dow Jones Industrial Average came as the first news of Mr Alan Greenspan's testimony on monetary policy filtered into the market. The Dow was ahead almost 20 points shortly after trading commenced in the US and up almost 50 points 90 minutes after London closed.

At the end of a trading session disrupted by the tube strike in London, which caused many problems, but did not ultimately affect attendance at the City's trading desks, the Footsie displayed a 35.2 gain at 3,693.4. The index has now recouped all but 4.9 of the 66-point fall it registered after the Dow's 161-point slide on Monday.

The FT-SE Mid 250 index was left behind by the leading index but still made good progress to end the day 17.8 firmer at 4,225.2.

Marketmakers said London had also been influenced by some sizeable activity in the Footsie futures market and in the underlying stocks ahead of today's expiry of the July index options. Some big securities houses were said to have been working towards an expiry around 3,700 on the FT-SE 100.

Opinions about the stock market's short term performance remained divided, with some traders expecting the Footsie to run into selling pressure after today's expiry and others looking for London to consolidate its hard won rally and build on that next week.

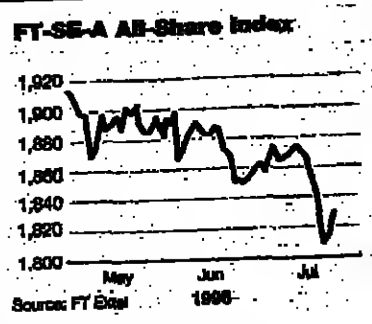
Fund managers were said to be considering the medium term implications of this week's sell-off on Wall Street. But the general consensus among strategists was that London's recovery looked pretty secure and that confidence was being re-established as long as the Footsie held above 3,650. What was being made clear, however, was that Wall Street was in danger of falling to 5,200 on the Dow in the short to medium term and to 5,000 thereafter.

The level of business in equities continued to disappoint traders. At the 6pm count, turnover fell short of the 600m-share level, reaching 592.3m, split equally between Footsie stocks and the rest. Wednesday's customer business was £1.58bn.

Of the big winners and losers in the Footsie, Redland, with its interests in Germany, took pole position on the upside, responding to the bright outlook for German interest rates. Oils prospered, with the exception of BP, which lagged behind a buoyant sector. National Power was aggressively bought, with Merrill Lynch said to be giving the stock a big push after putting it on its global buy list.

Railtrack's elevation to the FT-SE 100 index from this morning, following the merger of Royal Insurance and Sun Alliance, came in the wake of a good rise in the shares.

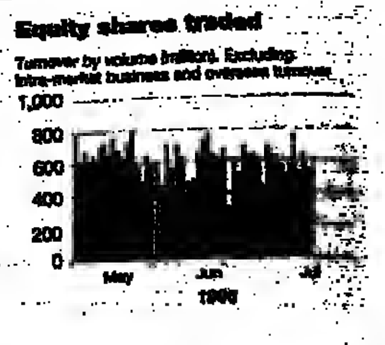
FT-SE-A All-Share index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3693.4	+35.4
FT-SE Mid 250	4225.2	+17.8
FT-SE-A 350	1851.8	+15.6
FT-SE-A All-Share	1832.41	+14.36
FT-SE-A All-Share yield	3.92	3.95

FT Ordinary index	2700.4	+21.7
FT-SE-A Non Fins p/e	18.54	18.43
FT-SE 100 Fut Jul	3690.0	+28.0
10 yr Gilt yield	7.88	7.93
Long gilt/equity yld ratio:	2.11	2.10

Best performing sectors

1. Life Assurance ... +1.8
2. Oil Exploration ... +1.8
3. Banks: Retail ... +1.8
4. Building Mats & Merchs ... +1.4
5. Electronic & Elec ... +1.4

Worst performing sectors

1. Gas Distribution ... [illegible]
2. Distributors ... [illegible]
3. Chemicals ... [illegible]
4. Textiles & Apparel ... [illegible]
5. Extractive Inds ... [illegible]

Licence boosts Lasmo

News that Lasmo has been granted a provisional production licence for its two Algerian oil discoveries, and that one of the big UK fund management groups has increased its shareholding, gave a big boost to the company's shares.

The big improvement in sentiment in Lasmo spilled over into other oil stocks, notably Enterprise Oil, but also Shell Transport. Also helping push the sector higher was growing concern in the market over the possibility that the US airliner tragedy may have been caused by a terrorist bomb, which could increase the political tension in the Middle East.

The Algerian news came as no real surprise to the market; analysts said the licence had been expected but had taken much longer to come through than previously thought.

Phillips & Drew Fund Management announced yesterday that it had increased its holding in Lasmo to 125.9m shares, or 12.03 per cent, from 116.3m shares, or 12.04 per cent.

Lasmo shares were among the best performers in the FT-SE 100 index throughout the trading session, eventually settling 7 ahead at 180p, on good turnover of 1.6m.

Enterprise Oil shares, which have recently embarked on a strong run, helped by a "charm offensive" series of presentations to analysts and institutions, closed 11½ ahead at 491p, their highest level since October 1993.

Shell, given a push recently and again yesterday by ABN-Amro Hoare Govett, the stockbroker, who have given the shares an £11 price target, moved up 17 to 942p. BP lagged behind the sector with only a 2 gain at 594½p.

Redland in demand

There was strong demand for international building materials group Redland. The shares jumped 19 to 419p, to make it the best Footsie performer of the day, following a UBS recommendation. Volume was 2.3m shares.

The company has been doing the rounds in the City, holding meetings with both institutions and brokers and UBS reiterated its recommendation on the stock after a meeting with the company.

Mr Simon Brown at the securities house believes, "the group is in line to realise shareholder value," and in addition, "the most efficient management is running a larger proportion of the asset base."

Sentiment in the stock had also been enhanced by recent reports about the improved housing market in Germany. Around 51 per cent of group profits at Redland are derived from Germany.

In the rest of the sector, RMC Group, another stock with German exposure, also that attracted the attention of investors and ths shares closed 24 ahead at 1041p.

BAA, the airports operator, slipped 2½ to 495½p on media reports which suggested that the Labour party was considering radical proposals to loosen its hold on London's three biggest airports.

BAA lodged a formal complaint to Mr Tony Blair's office. Mr Graham Allen, the shadow aviation minister, issued a statement that the Labour party had no plans to break up BAA, nor any proposal, should terminal 5 be built, for it to be owned or operated by anyone other than BAA.

Shares in British Biotech rose sharply after the rump of its £143m rights issue was placed at 1,950p a share prompting a shortage of stock later in the session. However, the placing was well below the 2,050p a share at which the offer was underwritten.

Shareholders only took up 49 per cent of the issue, although tha pessimists had expected the figure to fall far short of that. Volume at the close stood at 1.4m. The shares ended tha day up 180p at 2,143p.

The rise in British Biotech helped raise interest in several other stocks in the sector, including Chiroscience which rose 23 to 340p and Cortecs International up 13 at 282p.

Cantab Pharmaceuticals jumped 68 to 663p, after the company said it had received approval from the UK Medicines Control Agency (MCA) to begin clinical trials with a product for the treatment and prevention of genital warts.

Cantab is to collaborate with SmithKline Beecham in developing the treatment. Shares in SmithKline hardened 4 to 671½p following trade of 5.4m.

It was announced after the market close that SmithKline Beecham had bought a 3.15 per cent stake in Cantab.

In the rest of the financials, retail banking stocks were firm throughout the session. Lloyds TSB, which reports figures next week, was in demand and the shares hardened 10½ to 340½p; the stock was said to have featured in thew big programme trade.

The overnight strength of the Hong Kong market helped boost interest in HSBC and the shares finished the session 17 ahead at 1030p. Barclays, rose 15½ to 792p.

Shares in Legal & General jumped 14 to 701p, in trade of 1.3m, after the life assurance group said worldwide premium income rose 39.2 per cent in the first half of this year.

The figures were well ahead of the most optimistic market expectations, and helped boost several other issues in the sector including Lloyds Abbey Life, up 14 at 528p, and Prudential Corporation, which gained 9½ to 428p.

However, analysts at Charterhouse Tilney urged investors to view the figures with caution because, "last year's first half comparative figure was weak, and figures from Legal & General have been weaker than those of its peer group over the last four years."

GEC rose 9½ to 374½p after Mr Michael Portillo, secretary of state for defence, revealed that a £450m order had been placed with the company's GEC Marine unit for two new assault ships for the Royal Navy.

BT rose 3 to 359½p on volume of 10m, despite what one sector analyst described as an "uneventful" annual meeting.

The marginal rise in the stock was ascribed to the fact that investors were looking for a "safe haven" after tha recent retreat of technology stocks. Other investors showed interest in BT after talk that it might be part of a consortium taking part in a cellular network bid in Germany.

At its agm, BT said it was targeting North America, Europe and the Asia Pacific regions for overseas expansion, after it emerged that it had earlier been tipped as one possible candidate to partner South Africa's state-owned telecommunications company Telkom.

The possibility that DFS Furniture could have a new competitor when UNO floats on AIM was partly blamed for the furniture retailer falling 8 to 482p.

Innovations, which revealed that it had approaches from a third party which could lead to a bid, rose 17 to 212p.

Tomkins rose 10 to 264p amid growing optimism over its Gates acquisition. Panmure Gordon published a "buy" note. Kleinwort Benson repeated a long-term "buy" recommendation on Hanson, which recovered 2 to 159½p.

MARKET REPORTERS:
Steve Thompson,
Joel Kibazo, Lisa Wood,
John Dludu.

FINANCIAL TIMES EQUITY INDICES

	Jul 18	Jul 17	Jul 16	Jul 15	Jul 12	Yr ago	*High	*Low
Ordinary Share	2700.4	2678.7	2668.8	2723.1	2743.2	2574.4	2865.2	2668.8
Ord. div. yield	4.18	4.18	4.17	4.10	4.03	4.17	4.12	3.76
P/E ratio net	15.97	15.88	15.80	16.09	16.38	16.00	17.25	15.80
P/E ratio nil	15.88	15.77	15.71	16.00	16.29	15.83	17.03	15.71

Ordinary Share index since compilation: high 2865.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2682.0	2690.3	2686.3	2686.8	2689.5	2688.3	2688.2	2691.1	2694.7	2700.4	2681.7

	Jul 18	Jul 17	Jul 16	Jul 15	Jul 12	Yr ago
SEAQ bargains	24,018	29,893	34,625	30,393	28,200	21,717
Equity turnover (£m)†	-	1585.9	1804.2	1284.7	1785.2	1251.8
Equity bargains†	-	34,271	40,228	37,025	33,254	37,397
Shares traded (mil)†	-	814.5	606.6	547.7	813.4	792.8

†Excluding intra-market business and overseas turnover.

	Jul 18	Jul 17	Jul 16	Jul 15	Jul 12	Yr ago	*High	*Low
FT-SE AIM	1045.30	1037.00	1029.80	1050.50	1062.10	-	1140.40	965.70

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	892	Total Highs	21	Total contracts	46,584
Total Falls	416	Total Lows	72	Calls	21,022
Same	1,409			Puts	25,562

July 18 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3665.0	3690.0	+28.0	3699.0	[illegible]	[illegible]	[illegible]
Dec	-	3710.0	+28.0	-	[illegible]	[illegible]	[illegible]
Mar	-	3722.0	+28.0	-	[illegible]	[illegible]	[illegible]

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	4224.0	+18.0	-	[illegible]	[illegible]	[illegible]

FT-SE 100 INDEX OPTION (LIFFE) (3663) £10 per full index point

[illegible]

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock
§60	F.P.	8.16	58	50	†Alkyme
-	F.P.	864.6	£20	£18⅞	Alumax
§125	F.P.	39.4	135	123	†BATM Adv Comms
§180	F.P.	40.3	202	191	Belhaven Brewery
100	P.P.	1,359	98	90	British Energy

[illegible]

FT GOLD MINES INDEX

[illegible]

FT-SE Actuaries Share Indices — The UK Series

[illegible]

FT-SE Actuaries All-Share

[illegible]

Hourly movements

[illegible]

FT-SE Actuaries 350 Industry baskets

[illegible]

TRADING VOLUME

Major Stocks Yesterday

[illegible]

WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

EUROPE

AUSTRIA (Jul 18 / Sch) [illegible]

BELGIUM/LUXEMBOURG (Jul 18 / Frs.) [illegible]

CZECH REP (Jul 18 / Koruna) [illegible]

DENMARK (Jul 18 / Kr) [illegible]

FINLAND (Jul 18 / Mks) [illegible]

FRANCE (Jul 18 / Frs.) [illegible]

GERMANY (Jul 18 / Dm.) [illegible]

GREECE (Jul 18 / Drachmae) [illegible]

ITALY (Jul 18 / Lire) [illegible]

NETHERLANDS (Jul 18 / Fls.) [illegible]

NORWAY (Jul 18 / Kroner) [illegible]

POLAND (Jul 18 / Zloty) [illegible]

PORTUGAL (Jul 18 / Escudo) [illegible]

SPAIN (Jul 18 / Pts.) [illegible]

SWEDEN (Jul 18 / Kronor) [illegible]

SWITZERLAND (Jul 18 / Frs.) [illegible]

TURKEY (Jul 18 / TK Lira) [illegible]

PACIFIC

JAPAN (Jul 18 / Yen) [illegible]

HONG KONG (Jul 18 / H.K.$) [illegible]

INDONESIA (Jul 18 / Rupiah) [illegible]

MALAYSIA (Jul 18 / MYR) [illegible]

NEW ZEALAND (Jul 18 / NZ $) [illegible]

SINGAPORE (Jul 18 / S$) [illegible]

AUSTRALIA (Jul 18 / Aus$) [illegible]

SOUTH KOREA (Jul 18 / Won) [illegible]

TAIWAN (Jul 18 / TW $) [illegible]

THAILAND (Jul 18 / Baht) [illegible]

AFRICA

SOUTH AFRICA (Jul 18 / Rand) [illegible]

NORTH AMERICA

CANADA

TORONTO (Jul 18 / Can $) 4 pm close [illegible]

MONTREAL (Jul 18 / Can $) 4 pm close [illegible]

INDICES

	Jul 18	Jul 17	Jul 16	1996 High	1996 Low
Argentina General(29/12/77)	(u)	16753.73	16840.11†	18984.85 20/5	15028.61 19/3
Australia All Ordinaries(1/1/80)	2119.6	2096.1	2100.6	2328.80 26/4	2088.18 17/7
All Mining(1/1/80)	948.8	935.4	934.9	1118.47 8/5	934.90 18/7
Austria Credit Aktien(30/12/84)	353.93	358.98	354.78	384.88 31/5	352.78 2/1
Traded Index(2/1/91)	1029.47	1036.50	1031.00	1142.51 28/5	975.27 2/1
Belgium BEL20(1/1/91)	1881.73	1868.42	1867.77	1773.28 28/5	1574.80 2/1
Brazil Bovespa(29/12/83)	(u)	62147.0	62834.0	66522.00 12/7	43801.80 2/1
Canada Metals Minls‡(1975)	(u)	4930.80	4912.88	5634.80 8/5	4087.47 16/1
Composite‡(1975)	(u)	4940.0	4920.59	5248.48 31/5	4739.70 15/1
Portfolio§(4/1/83)	(u)	2438.82	2430.82	2586.58 27/5	2327.38 12/1
Chile IGPA Gen♥(31/12/80)	(u)	5584.96	5598.36	5804.33 8/1	5215.28 8/4
Denmark CopenhagenSE(3/1/83)	406.82	405.82	407.19	415.18 4/7	368.40 2/1
Finland HEX General(28/12/90)	1993.13	1986.32	1978.18	2070.42 31/5	1851.87 10/1
France SBF 250(31/12/90)	1373.97	1367.70	1363.19	1457.56 6/6	1260.16 2/1
CAC 40(31/12/87)	2007.26	1995.11	1989.51	2146.79 30/4	1867.45 11/1
Germany FAZ Aktien(31/12/58)	886.06	883.48	877.28	911.74 5/7	818.86 2/1
Commerzbank(1/12/53)	2582.80	2554.50	2535.80	2627.89 5/7	2370.20 2/1
DAX‡(30/12/87)	2508.22	2497.19	2489.79	2583.49 5/7	2284.86 2/1
Greece Athens SE(31/12/80)	891.45	895.67	902.36	1017.86 4/3	881.45 18/7
Hong Kong Hang Seng(31/7/64)	10711.24	10809.10	10827.98	11594.98 16/2	10204.87 2/1
India BSE Sens.(1979)	3775.59	3722.24	3644.93	4069.26 18/6	2828.08 25/1
Indonesia Jakarta Comp.(10/8/82)	576.32	576.26	573.32	630.21 24/4	512.48 2/1
Ireland ISEQ Overall(4/1/88)	2416.78	2416.47	2404.90	2695.19 18/6	2234.81 2/1
Italy Banca Comm Ital(1972)	622.49	616.20	610.90	674.16 20/5	572.21 27/3
MIB General(2/1/95)	1059.0	1044.0	1036.0	1142.00 20/5	976.00 27/3
Japan Nikkei 225(16/5/49)	21586.42	21412.88	21408.35	22666.80 26/6	19734.70 13/3
Nikkei 300(1/10/82)	302.66	300.67	300.72	319.70 26/6	284.48 11/3
Topix(4/1/68)	1638.08	1625.54	1626.11	1722.12 26/6	1524.12 13/3
2nd Section(4/1/68)	2212.65	2202.63	2207.32	2251.48 2/7	1962.78 14/3
Malaysia KLSE Comp.(4/4/86)	1123.36	1126.50	1123.77	1189.54 30/4	983.18 2/1
Mexico IPC(Nov 1978)	(u)	2980.27	2944.39	3362.98 22/5	2736.38 8/3
Netherland CBS TtlRtnGen(End 83)	610.9	606.6	609.0	652.60 12/6	538.80 2/1
CBS All Shr(End 83)	362.4	359.8	361.2	387.10 12/6	326.70 2/1
New Zealand Cap. 40(1/7/86)	2055.91	2065.25	2061.27	2263.06 4/1	2025.14 7/6
Norway Oslo SE(Ind)(2/1/83)	1380.19	1389.31	1388.38	1488.71 12/6	1230.68 30/1
Philippines Manila Comp(2/1/85)	3188.04	3187.66	3199.32	3374.40 5/7	2578.97 2/1
Portugal BVL 30(4/1/93)	1927.59	1927.11	1913.85	1988.29 3/7	1802.81 2/1
Singapore SES All-S'pore(2/4/75)	548.83	551.76	548.10	610.37 5/2	548.10 16/7
South Africa JSE Gold(28/9/78)	1790.9♥	1808.0	1844.3	2088.40 29/5	1346.40 2/1
JSE Ind.(28/9/78)	7945.4♥	7897.1	7788.0	8238.30 25/1	7723.20 20/5
South Korea KoreaCompEx**(4/1/80)	816.47	(c)	812.66	986.84 7/5	812.66 16/7
Spain Madrid SE(30/12/85)	358.69	354.09	352.69	375.26 1/7	323.75 11/1
Sweden AffarsvarldsGen(1/2/37)	1904.0	1905.0	1903.3	2019.00 5/6	1708.69 22/1
Switzerland Swiss Bk Ind(31/12/58)	1738.97	1740.68	1749.38	1811.86 11/7	1516.19 17/1
SBC General(1/4/87)	1233.63	1234.90	1240.47	1284.98 11/7	1114.47 26/1
Taiwan WeightedPr.**(30/6/66)	6122.20	6102.73	5983.50	6980.41 29/6	4690.22 6/2
Thailand Bangkok SET(30/4/75)	1179.84	1172.38	1181.05	1415.04 6/2	1172.38 17/7
Turkey Istanbul Cmp.(Jan 1986)	65391.0	68883.9	69404.2	73681.30 8/7	38779.30 2/1
WORLD MS Capital Intl(1/1/70)	750.8*	748.1	743.8	783.20 1/7	728.98 15/1
CROSS-BORDER Eurotrack 100(26/10/90)	1631.33	1624.81	1624.77	1700.78 4/7	1504.40 11/1
Euro Top-100(26/6/90)	1388.38	1378.72	1374.42	1458.28 25/4	1333.97 11/1
HSBC JC Drgs(31/12/89)	(u)	366.66	368.25	389.16 18/4	344.19 2/1
ING Brngs Emrg(7/1/92)	158.43	158.22	156.16	186.91 4/7	147.35 2/1

US INDICES

Dow Jones	Jul 17	Jul 16	Jul 15	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5376.88	5358.76	5349.51	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.14	101.02†	100.99†	106.89 (14/2)	100.98 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2018.52	1980.57	2014.53	2296.20 (22/5)	1902.71 (18/1)	2296.20 (22/5/96)	12.32 (8/7/32)
Utilities	213.11	213.53	215.53	234.00 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5465.29 (5438.68) Low 5325.10 (5170.11) (Theoretical‡)
Day's high 5429.41 (5402.04) Low 5356.70 (5183.05) (Actual‡)

Standard and Poors	Jul 17	Jul 16	Jul 15	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	634.07	628.37	629.80	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	751.12	743.71	745.65	807.88 (5/6)	702.07 (15/1)	807.88 (5/6/96)	3.62 (21/6/32)
Financial	64.26	63.78	63.55	68.56 (5/3)	58.67 (10/1)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	340.10	336.80	338.67	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	530.99	525.60	533.43	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1089.65	1053.49	1080.19†	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

■ RATIOS

	Jul 12	Jul 5	Jun 28	Year ago
Dow Jones Ind. Div. Yield	2.26	2.22	2.19	2.36
	Jul 10	Jul 3	Jun 26	Year ago
S & P Ind. Div. yield	2.03	na	1.87	2.07
S & P Ind. P/E ratio	21.97	na	22.29	18.68

■ NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
Glaxo Well	12,511,600	28¾	-⅛
Hewlett-Pckd	8,123,300	43⅝	+2⅝
Elect Data	7,344,800	60	+⅞
Micron Tech	6,490,400	18	-1½
Office Depot	6,372,100	14¼	----
AT & T	6,328,600	56¼	+1
Motorola	4,888,300	54¾	+2⅝
Chrysler	4,516,600	28⅞	+1½
Computer Asc	4,052,700	46½	+6
News Corp	3,757,000	20⅝	-1¼

■ TRADING ACTIVITY

● Volume (million)

	Jul 17	Jul 16	Jul 15
New York SE	509.470	684.912	410.511
Amex	27.205	41.863	23.755
NASDAQ	718.310	896.334	599.936
NYSE			
Issues Traded	3,169	3,190	3,166
Rises	1,741	689	413
Falls	722	1,855	2,139
Unchanged	706	646	616
New Highs	14	13	29
New Lows	45	271	147

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Sep	640.95	636.50	+0.70	640.50	637.40	81,407	176,152
Dec	645.00	644.40	+0.70	646.50	644.40	415	7,836

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Sep	21550.0	21620.0	+160.0	21640.0	21500.0	13,375	226,977
Dec	21550.0	21550.0	+80.0	21550.0	21550.0	501	8,449

Open interest figures for previous day.

INDEX FUTURES

■ CAC-40 (500 x Index) [illegible]

■ DAX [illegible]

■ OMX [illegible]

Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. [illegible]

■ TOKYO - MOST ACTIVE STOCKS: Thursday, July 18, 1996

	Stocks Traded	Closing Prices	Change on day
Matsui Matushima	4.2m	591	-11
Toshiba Corp	3.6m	721	+1
Bk Tk-Mitsubishi	8.1m	2350	+40
Mitsubishi Hvy	3.0m	912	
NKK Corp	2.9m	308	+8
Nomura Secs	2.7m	1950	+20
Nippon Stl Corp	2.6m	351	+3
Kobe Steel	2.4m	293	+3
Sumitomo Mtl Ind	2.3m	315	+7
Kanematsu Corp	2.2m	708	+13

FT FREE ANNUAL REPORTS SERVICE [illegible]

NEW YORK STOCK EXCHANGE PRICES

4 pm close July 18

1996 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
23½	17¾	AAR	0.48	2.5	16	591	19	18⅞	18⅞	-⅛
48⅛	36⅛	AMP	1.00	2.8	16	5975	38	37	38	+2
87½	68	AMR			20	8454	82½	80½	81¼	-¾
50½	37¼	ASA	1.80	4.5	26	270	39⅝	39⅜	39⅝	+⅛
45¼	38⅛	Abbott L x	0.90	2.1	15	15721	u45¼	42⅞	45⅛	+2¼
17¼	12¼	Abitibi Pr	0.40	3.0	6	1471	13⅜	13	13⅜	+⅜
40⅜	27	ABM Ind	0.70	1.9	19	257	37⅞	37⅝	37⅞	-⅛
18⅝	13⅞	Acptncxla			40	77	18½	17⅞	18⅛	+⅛
50⅜	37¼	ACE Ltd	0.56	1.3	16	2823	42½	41	42¼	-⅛
9⅞	9⅛	ACM Gvt In	0.90	0.1	6	153	u9⅞	9¾	9⅞	+⅛
7⅞	6⅝	ACM GvOpp	0.57	8.1		256	7	6⅞	7	+⅛
7¼	6	ACM Gvt Sp	0.66	10.2		1803	6½	6⅜	6½	+⅛
9½	8¼	ACM Gvt Se	0.90	10.4		1097	8⅝	8⅜	8⅝	+⅛
9½	8⅜	ACM Man	0.90	10.4		337	8⅝	8½	8⅝	
13⅞	6⅛	Acme Elect			47	361	8¾	7½	8⅝	+1
33¼	27¼	Acordia	0.88	2.5	19	14	31⅞	31¼	31¼	
21⅛	12	Acuson			60	1345	13¾	13⅜	13⅜	
19½	17⅞	Adams Expr	0.40	2.5	0	490	18½	18¼	18½	+¼
21¼	10⅞	Adminic			7	15652	11⅞	11¼	11¼	-⅝
11¾	8½	Advest Grp	0.16	1.6	7	29	10	9⅞	10	+¼
26⅞	9¼	Advo Inc	0.10	1.1	52	41	9⅝	9⅜	9½	
50¾	41¼	Aeqon	1.16	2.8	14	37	40¼	45⅞	40	-½

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Continued on next page

4 pm close July 18

NYSE PRICES

Continued from previous page

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
20⅝	12¼	ScINd	0.08	0.5	33	8544	13½	12⅞	13⅛	+⅛
21	17	Scotsman	0.19	0.5	11	48	19⅞	19⅝	19¾	
47½	30⅛	Scripps	0.52	1.2	24	261	43½	42½	43¼	+¾
18⅛	13¾	ScuddrNAsF	0.02	0.1		217	14	13⅝	13⅞	+⅝
12⅞	11	ScuddrNSuF	0.16	1.3		292	12¼	12	12⅛	+⅛
20½	19	SeaCntB	0.70	4.6	1	7	17½	17½	17½	
16	15	SeaC1.4625	1.46	9.6		11	15⅜	15¼	15⅜	
87¾	36⅛	S'gate			27	16976	43⅜	41¼	42⅞	+1
39½	31½	Seagram	0.60	1.9	22	3760	32¼	32⅛	32¼	
25	17½	Seagull En			14	5748	22	20⅝	21	-2⅜
36⅛	26	Sealed Air			28	1336	35⅞	31⅝	35⅛	+3¾
53⅞	38¼	SearsR	0.92	2.0	13	12277	46½	45	46¼	+¼
22⅝	19¼	SecCapSBI	1.24	6.0	20	593	20⅝	20⅜	20½	
19	11⅞	Seligm Sel x	0.84	0.6		48	12⅜	12¼	12⅜	-⅛
23¾	13⅝	Sensormat	0.22	1.4	19	1193	15¾	15¼	15½	+⅛
44⅛	29½	SequaA	0.60	1.5	105	90	40⅝	40	40¼	-¼
50	39	SequaB	0.50	1.0	125	5	48¾	48¾	48¾	
60¼	39⅞	ServCp x	0.48	0.9	28	3729	55⅞	54⅞	55⅞	+1
23½	19½	SvMstr	0.68	0.8	15	383	22⅝	22⅛	22½	+⅛
6¾	4½	SandMerch			11	1900	6⅜	6	5⅞	
40¼	26½	ShawTom			7	3270	33⅞	33¼	33⅝	+½
[illegible]										

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]										
47⅞	38¾	Xtra Corp	0.72	1.7	16	104	43	42⅜	42½	-⅝
25¾	20⅞	Yankee Egy	1.30	5.8	12	20	22½	22¼	22⅜	
53¾	49⅞	York Int	0.36	0.7	22	1357	49½	47⅝	49⅜	+1⅞
3⅞	9	Zapata	0.14	4.6	8	81	3½	3½	3½	
25¾	5⅞	ZeiltG			5	1954	10⅛	8½	9⅞	+⅞
28⅞	21⅝	Zenith Nat	1.00	3.7	58	109	27⅜	26⅝	27¼	+¾
7⅞	6½	Zenix Inc	0.72	16.3		45	7	6⅞	7	
22⅞	15⅛	Zero	0.12	0.6	19	405	20⅞	19½	20¾	+1½
23¾	19¾	Zurn Ind	0.40	2.0	14	497	20¼	19⅞	20	+¼
11⅜	10½	Zweig Fund x	1.06	10.6		146	10⅞	10¾	10¾	-⅛
6	8¼	Zweig Tot x	0.84	10.0		834	8½	8¼	8⅜	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

NASDAQ NATIONAL MARKET

4 pm close July 18

[illegible]

AMEX PRICES

4 pm close July 18

[illegible]

AMERICA

US equities move higher at midsession

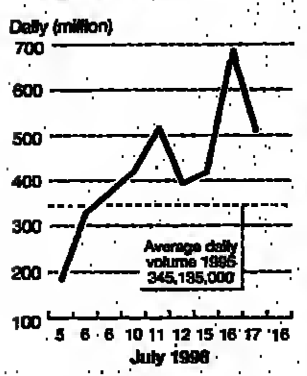
Wall Street

Hopes that the Federal Reserve would not raise interest rates in the near term sent US share prices sharply higher in early afternoon trading, *writes Lisa Bransten in New York.*

Trading was choppy early in the session, with most of the major indices bouncing through positive and negative territory as the market struggled to come to terms with the sharp declines seen for most of this month. Just after 11am, however, the market soared as investors interpreted the text of a speech to be delivered by Mr Alan Greenspan, the Fed chairman, as a sign that the Fed was watching for inflationary pressures, but was not necessarily ready to clamp down immediately.

That news sent shares and honds sharply higher. The yield on the benchmark 30-year bond moved below 7 per cent for the first time since July 5, when a strong employment report led most on Wall Street to conclude that an interest rate increase in August was inevitable. As Treasuries soared, the Dow Jones Industrial Average posted a gain of nearly 49 points.

NYSE volume



By 12.30pm the Dow had a gain of 44.39 at 5,421.27. The Standard & Poor's 500 rose 5.30 to 639.37 and the American Stock Exchange composite climbed 6.87 to 546.86. NYSE volume was 237m shares.

A better than expected quarterly report from Apple Computer combined with the interest rate expectations to cheer the battered technology sector. In early trading the technology-rich Nasdaq composite was 13.46 stronger at 1,100.11 and the Pacific Stock Exchange technology index was 1.1 per cent stronger.

Apple jumped $4 or 24 per cent to $20¾ and was the most actively traded share on the Nasdaq at midday after reporting a loss of 26 cents a share, far below the $1.09 loss analysts had expected.

Internet-related companies were mostly stronger as investors awaited results from Netscape Communications, the Internet software maker, due out after tha market closed. The Amarican Stock Exchange/Interactive Week Internet index was 0.7 per cent stronger and Netscape added $1⅝, or 4 per cent, at $53¼.

Two components of the Dow, AT & T and Sears, Roebuck, reported results early yesterday. AT & T came in at analysts' estimates with a second quarter profit of 94 cents a share. Shares fell, however, $2⅞, or 5 per cent, $53⅞ after the company warned that growth in the US consumer business this year would not match last year because of intensifying competition in that area.

Sears was unchanged at $46 after reporting earnings of 67 cents a share, 3 cents ahead of analysts's estimates.

Canada

Toronto extended Wednesday's rebound and by noon the TSE 300 composite index was 39.6 higher at 4,979.60 in volume of 30m shares.

Toronto-Dominion Bank rose C$1.05 to C$25.05. On Wednesday it said that it might buy back up to 30m common shares before October 31.

Bre-X Minerals addad another 5 cents at C$23.90, helped by analysts' positive recommendations.

Volatility in Mexico

Mexican stocks were traded in a volatile fashion, reversing light early gains before recovering again by midsession. The IPC index was up 35.47 at 3,025.74.

In SAO PAULO the Bovespa index had made a very slight forward move by midday, rising 155 to 62,302, as the market awaited comments from the Federal Reserve in the US.

BUENOS AIRES was modestly firmer by midday, altbongh domestic worries were impinging on activity. The Merval index had gained 1.15 at 553.42.

● ING Barings has revamped its Latin American portfolio, reducing its weighting in Chile and increasing weighting in Mexico and Brazil.

The company also said it was reviewing Peru's second-quarter results season.

S African industrials higher

Johannesburg's industrial shares ended at the day's best levels, propelled higher by a stronger start on Wall Street, with investors more optimistic about gains on the Dow following the strong earnings figures from Intel.

However, much of the day's activity was futures-related which, analysts said, was indicative of continued nervousness as players rushed to hedge positions.

Gold shares closed softer, taking dealers by surprise, following quarterly results from Anglos which were well ahead of expectations.

Traders said that bullion's inability to break convincingly through the $384 an ounce barrier, and fears of a US interest rate rise, may have been behind the stock weakness.

The overall index ended 30.9 up at 6,715.1 and industrials added 45.3 at 7,945.4, but golds gave up 17.1 at 1,790.9.

De Beers finished R1.75 stronger at R142.75 but Anglos relinquished R1 to R256.

EUROPE

Deutsche Bank advances on acquisition talks

Tha *Continent's* equity markets were relatively quiet yesterday.

FRANKFURT saw modest price movements, although activity did pick up slightly during late afternoon. The Dax index ended with an advance of 9.03 to 2,506.22, while the Ibis trimmed the gain slightly to finish at 2,505.56. Turnover was DM19bn.

Dautsche Bank, DM1.44 higher at DM74.30, and then to an Ibis DM74.60, confirmed that it was holding talks to acquire Chase Manhattan Trust and Banking (Japan) from Chase Manhattan.

Analysts were positive about the news, saying that if the deal went through it would give the German bank a strong presence in Japan.

Siamens, the electronics group, was hit on two fronts: firstly by a loss reported from Linotype-Hell, the printing machinery company in which it holds a stake, and secondly by a broker's downgrade. The shares closed officially off DM1.18 at DM77.61, and in the Ibis at DM77.50.

ZURICH slid into negative territory late in the day, with prices heavily influenced hy today's expiry of options and futures. The SMI index turned back from a high of 3,680.9 to close 7.0 weaker at 3,649.2.

Roche certificates lost SFr30 to SFr9,300, while the bearer sbares added SFr100 to SFr15,350 as the German chemical group, Bayer, denied a rumour that it planned to sell a drugs subsidiary to the Swiss company.

Sandoz and Ciba gave up early gains which followed Wednesday's EC approval of thsir planned merger into Novartis. Sandoz lost SFr4 to SFr1,396 and Ciba eased SFr2 to SFr1,396.

MILAN continued to recover from its sharp losses at the start of the week as the market took its lead from domestic bonds and the lira. The Comit index rose 6.29 to 622.49.

Stet rose L96 to L4,860 after the approval of a telecoms watchdog opened the way for its privatisation, probably next year. Foreign demand drove Tim L128 higher to L3,238.

Mediaset moved ahead in early trade, before slipping back to close L15 weaker at L7,613 amid doubts about the government's rules on TV advertising and ownership. News that the rules could cost the company L1,000bn in lost revenue came after the market closed.

FT-SE Actuaries Share Indices

Jul 18								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1631.63	1634.08	1633.87	1634.83	1635.43	1633.53	1632.20	1631.33
FT-SE Eurotrack 200	1669.60	1670.65	1670.21	1673.08	1674.19	1670.73	1671.83	1671.28

	Jul 17	Jul 16	Jul 15	Jul 12	Jul 11
FT-SE Eurotrack 100	1624.61	1624.77	1664.07	1675.53	1690.00
FT-SE Eurotrack 200	1663.77	1669.60	1706.17	1715.71	1730.08

Base value 1000 (26/10/90); Highday: 100 - 1635.54; 200 - 1676.04 Lowday: 100 - 1629.38 200 - 1668.59. † Partial.

PARIS was slightly disappointed after the Bank of France left interest rates unchanged, even though most investors had not been expecting a move. The CAC-40 index, nevertheless, managed to nudge forward, to a close of 2,007.26, up 12.15. Turnover was FFr5.5bn.

UAP was one of the biggest gainers, up FFr4.80, or 4.7 per cent, to FFr106, as rumours spread that it might be a takeover target.

AMSTERDAM took another look at Stork and was impressed hy its acquisition, announced on Wednesday, of the maintenance and parts division of Fokker, the aircraft manufacturer which went bankrupt earlier this year. Stork's shares rose Fl 2.40 to Fl 50.40. Analysts noted that under the terms of the deal Stork would probably enhance its 1997 earnings per share, and a number of brokerages lifted recommendations.

The AEX index put on 2.29 to 529.40.

Polygram went against the trend with a number of investors turning cautious ahed of the company's first half results, due out next week. The stock fell Fl 2.10 to Fl 87.90.

BRUSSELS saw a 6.3 per cent tumble in Spector, Europe's second-largest indapendant photograph processing group, although ths broad market posted solid gains on the last day of the 14 day account, supported by steady bonds and the dollar. The Bel-20 index rose 13.31 to 1,681.73.

Spector Photo Gronp, slumped BFr140 to BFr2,070 after the company warned that profits from a French subsidiary were not living up to expectations.

MADRID moved cautiously higher with the general index recording a 2.60 rise to 356.69.

Banco Bilbao Vizcara, jumped Pta150 to Pta5,450 on first half results that far outstripped even the most optimistic estimates. The hank, Spain's second largest in terms of deposits, posted a 26.4 per cent rise in net attribntable profit, compared with forecasts of around 19 per cent. Analysts predicted more good news before the end of the year as a result of the bank's strategy of offsetting weakness in domestic traditional banking by seeking profitability elsewhere, in other banks abroad or through its industrial portfolio.

Written and edited by Michael Morgan and John Pitt

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	Mar 1996	Apr 1996	May 1996	June 1996	US $bn
Belgium	155.80	126.48	108.46	87.279	2.78
Denmark	35.18	39.05	32.62	37.96	6.47
Finland	15.51	15.88	21.78	15.36	3.31
France	229.58	162.75	241.28	247.54	48.09
Germany	274.58	167.73	157.42	200.88	131.84
Italy	43,380	58,992	65,792	54,928	35.84
Netherlands	50.90	51.40	55.70	44.20	25.91
Norway	45.20	39.13	39.93	32.28	4.97
Spain	1,884.26	1,653.21	1,497.97	1,436.43	11.20
Sweden	144.78	190.06	161.00	129.40	19.50
Switzerland	57.93	44.50	38.49	40.95	32.73
UK	68.21	63.25	62.59	55.35	85.97

Volumes represent purchases and sales.
Italian data adjusted to include off-market trading. Some figures may be revised.
Source: NatWest Securities

Domestic share trading activity was sharply higher in Germany during June, but the 27.5 per cent rise on the month, and 38.7 per cent on the year, was entirely the result of a surge in volumes on June 21, accompanying the triple options and futures expiry. If an average day's volume is substituted, says Mr James Cornish, European strategist at NatWest Securities, June's domestic volumes would have been 1 per cent down on May. Moreover, German volumes on Seaq International, the London screen based trading system, fell 23.4 per cent on the month, suggesting a lack of activity on the part of international funds after the inflow seen in May.

Across Europe as a whole, June domestic volumes were 0.1 per cent down on May but up 27.4 per cent on June 1995. Mr Cornish notes that the fall in June's volumes accompanied a rise of 0.2 per cent in the FT/S&P Europe index, which again underperformed the World index's 0.5 per cent increase.

International interest was, however, markedly weaker, with a 12.7 per cent fall on the month in the volume of European stock deals declared to Seaq International.

The biggest fall in domestic volumes in Jnne was in Finland, down 29.5 per cent, accompanied by a very steep 44.5 per cent drop in volumes on Seaq International. Mr Cornish notes that the Helsinki index fell 2.1 per cent over the month on some disappointing tertial corporate results.

ASIA PACIFIC

Tokyo sees recovery in technology, financial sectors

Tokyo

Wall Street's recovery encouraged buyers, but while share prices gained ground, volumes remained sluggish due to lingering cautiousness over interest rates, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 average finished 153.54 up at 21,566.42 after moving between 21,428.36 and 21,573.55. Technology stocks, banks and brokers, which have been weak over the past few days, were chased. Foreign investors continued to sell electricals, but buying by domestic institutions provided underlying support.

Volume was 260m shares, against 288.2m. The Topix index of all first section stocks rose 10.54 to 1,636.08 and the Nikkei 300 added 1.99 at 302.66. Advances led declines by 672 to 394, with 193 issues unchanged.

In London the ISE/Nikkei 50 index put on 1.08 at 1,445.88.

Short-covering on the futures market towards the end of the session prompted arbitrage buying. Futures traders said that, amid current low volumes on the cash market, concerns over the negative effects of sudden arbitrage unwinding due to a fall in futures prices remained.

High-technology stocks, which had been battered earlier this week due to the sector's plunge on Wall Street, rebounded, with Toshiba rising Y1 to Y721 and Hitachi appreciating Y12 to Y993. Matsushita Electric Industrial gained Y20 at Y1,950 but Sony was unchanged at Y6,900.

Banks, which have been weak on fears of rising interest rates, were higher. Industrial Bank of Japan rose Y20 to Y1,950 and Sanwa Bank gained Y50 to Y1,800.

Matsushima Seiko, a machinery maker, rose Y26 to Y868 on expectations of an increase in demand for the company's sanitary machines amid the current food-poisoning epidemic which has hit the country's western regions.

Drugs companies were weaker on profit-taking. Takeda Chemical fell Y20 to Y1,910 and Daiichi Pharmaceutical lost Y10 to Y1,690. Retailers were also lower, with Seven-Eleven Japan, the convenience store operator, down Y40 to Y6,870 and Ito-Yokado, the supermarket chain, falling Y80 to Y6,440.

Nippon Telegraph and Telephone, the leading telecom company, climbed Y4,000 to Y790,000 on reports that it planned to triple its investment in digital network lines to some Y100bn.

In Osaka, the OSE average rose 86.66 to 22,687.71 in volume of 28m shares. Aoyama Trading, the men's suit maker, added Y100 at Y3,080.

Roundup

SYDNEY just missed closing at an intra-day high, as the All Ordinaries index ended up 23.5, or 1.1 per cent, at 2,096.1. Volume was 269.4m shares valued at A$333.2m.

The media index went against the trend, losing 1.3 per cent, a factor which was largely accounted for by News Corp. The group's preferred shares tumbled 34 cents, or 6 per cent, to A$5.31 after confirming its involvement in a $2.45bn bid for New World Communications Group, of the US. The ordinary shares slipped 6 cents to A$6.59.

HONG KONG was pulled higher by the property sector on the view that July and August tended to be good months for property sales, and the Hang Seng index gained 102.14 at 10,711.24. Turnover, however, dipped to HK$4bn.

Sun Hung Kai Properties climbed HK$1.25 to HK$74.25, Henderson Land rose HK$1 to HK$56.25 and Cheung Kong put on HK$1.25 at HK$53.50.

Haeco fell 65 cants to HK$20.25 and Miramar Hotel & Investment lost HK$0.35 to HK$15.20. Both companies are to be replaced in the Hang Seng index on August 30 by First Pacific, up 30 cents at HK$11.80, and Henderson Investment, which gained HK$0.20 to HK$7.30.

SEOUL marked Samsung Electronics higher in spite of confirmation from the company that it was undergoing a tax investigation by the National Tax Administration.

Samsung ended Won1,200 ahead at Won70,000, as local media reports said that the investigation was the first Samsung had seen in 10 years.

The broad markst edged higher as renewed demand outweighed late profit-taking.

BOMBAY moved 1.4 per cent ahead on growing hopes that the July 22 budget might give some incentives to industry. The BSE-30 index finished 53.75 higher at 3,775.99.

Reliance surged Rs13.50 to Rs234 after the company hinted at a possible bonus equity issue within a year.

Thomas Cook, the travel and foreign exchange group, jumped Rs83.75, or 12.6 per cent, to Rs749 after the company announced a 99 per cent rise in net profits for the first six months of the year.

TAIPEI was lifted by tha financial sector which left the weighted index up 19.47, or 0.3 per cent, at 6,122.20. Turnover was T$40.6bn. Among financials, China Life soared 7 per cent, or T$3.50, to T$53.50.

MANILA's composite index edged up 0.36 to 3,188.04 in volume of 7.9bn shares.

BANGKOK took comfort in BEC World, a media company making its market debut. The SET index advanced 7.46 to 1,179.84 on turnover of Bt7.2bn.

BEC World accounted for some 38 per cent of the total turnover, to close at Bt280 against an initial public offering price of Bt142.

COLOMBO was unsettled by news of a Tamil rebel attack on a military camp in the north east of the island. The All Share index lost 2.0 to 583.8 in turnover of SLRs6.7m.

SINGAPORE was broadly weaker, although some demand emerged for banks, which led the recent sharp fall in prices. The Straits Times Industrial index closed 13.08 off at 2,190.95.

KUALA LUMPUR ran out of steam, after a firm start, on profit-taking in some recent winners. The composite index lost a net 3.14 at 1,123.36.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY JULY 17 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY JULY 16 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (80)	168.44	-0.6	160.42	129.54	145.63	158.87	-0.2	4.55	169.56	160.42	130.91	147.05	159.27	212.18	173.72	177.66
Austria (24)	181.49	0.7	173.77	124.77	140.26	140.16	0.3	2.00	180.16	171.50	124.43	139.78	139.71	198.73	168.11	198.47
Belgium (27)	208.53	0.5	198.65	143.35	161.15	157.55	0.1	4.23	207.56	197.56	143.34	161.02	157.36	215.61	186.06	198.29
Brazil (28)	177.43	-1.2	169.88	121.97	137.12	328.71	-1.2	1.98	179.67	171.01	124.08	139.38	332.73	189.70	123.97	143.76
Canada (120)	156.18	0.6	149.53	107.37	120.70	155.12	0.6	2.31	155.30	147.82	107.25	120.48	154.27	158.12	134.14	150.63
Denmark (30)	306.34	-0.1	293.31	210.60	236.74	238.87	-0.4	1.92	306.62	291.85	211.76	237.87	239.93	309.01	276.89	282.82
Finland (23)	181.30	1.2	183.15	131.51	147.84	181.31	0.2	2.76	189.09	179.96	130.59	146.69	181.02	276.11	171.73	260.96
France (96)	180.71	0.7	182.60	131.10	147.38	150.85	0.3	3.20	189.42	180.30	130.82	146.95	150.22	196.39	167.70	168.33
Germany (59)	171.94	1.5	164.62	118.20	132.88	132.88	1.1	1.87	169.47	161.31	117.04	131.47	131.47	174.38	155.66	163.79
Hong Kong (58)	413.17	-0.3	395.59	284.04	319.30	410.41	-0.3	3.48	414.31	394.35	286.13	321.41	411.52	451.19	348.61	377.30
Indonesia (27)	204.08	0.9	195.40	140.30	157.72	291.34	0.8	1.57	202.43	192.68	139.80	157.04	289.10	-	-	-
Ireland (16)	270.62	0.1	259.10	186.04	209.14	238.24	0.3	3.80	270.21	257.19	186.61	209.63	237.43	290.82	235.88	240.38
Italy (58)	76.93	1.6	73.66	52.89	59.45	87.53	1.7	2.53	75.72	72.07	52.29	58.74	86.06	84.53	67.22	78.19
Japan (481)	149.64	0.5	143.27	102.87	115.64	102.87	0.0	0.74	148.95	141.78	102.87	115.55	102.87	164.68	137.75	151.96
Malaysia (107)	558.06	0.2	534.32	383.64	431.28	534.42	0.2	1.68	556.79	529.96	384.52	431.94	533.20	585.09	425.77	554.32
Mexico (18)	1134.82	1.7	1086.54	780.14	877.00	9492.41	1.6	1.40	1116.00	1062.23	770.72	865.76	9347.77	1325.86	791.99	1222.35
Netherland (19)	286.67	0.0	274.48	197.08	221.55	218.34	-0.4	3.30	286.61	272.80	197.94	222.34	219.14	299.69	245.79	259.92
New Zealand (15)	79.52	0.3	76.13	54.88	61.45	61.25	0.2	4.43	79.26	75.44	54.74	61.49	61.12	84.71	75.94	83.83
Norway (35)	250.25	0.5	239.60	172.03	193.39	217.42	0.1	2.08	249.50	237.48	172.31	193.56	217.28	266.94	222.24	242.21
Philippines (22)	208.71	-0.0	199.83	143.48	161.30	272.36	-0.0	0.56	208.72	198.65	144.14	151.92	272.36	-	-	-
Singapore (44)	394.32	0.5	377.54	271.08	304.74	257.71	0.6	1.47	392.24	373.34	270.89	304.29	256.15	465.21	355.81	392.09
South Africa (44)	345.04	1.7	330.36	237.20	266.65	331.19	0.8	2.19	339.18	322.84	234.24	263.13	328.53	437.76	339.16	347.23
Spain (37)	175.60	0.5	168.13	120.72	135.71	187.36	0.4	3.49	174.68	166.26	120.63	135.51	186.65	193.85	145.15	154.44
Sweden (49)	342.60	0.5	328.02	235.52	264.78	338.31	0.1	2.54	340.78	324.36	235.35	264.37	335.89	360.77	280.13	289.16
Switzerland (37)	246.33	0.4	235.84	169.34	190.36	185.47	-0.3	1.60	245.45	233.62	169.51	190.41	186.07	252.34	181.24	203.42
Thailand (45)	157.56	-0.8	150.85	108.31	121.76	154.83	-0.9	2.13	158.79	151.13	109.68	123.16	156.22	193.95	146.74	180.84
United Kingdom (200)	229.91	0.1	220.13	158.05	177.68	220.13	0.7	4.26	229.63	218.56	158.58	178.14	218.56	237.48	216.52	221.92
USA (627)	257.94	1.0	246.97	177.32	199.34	257.94	1.0	2.30	255.28	242.98	176.30	198.04	255.28	276.47	224.83	229.39
Americas (793)	235.96	1.0	225.94	162.23	182.37	198.45	1.0	2.29	233.64	222.38	161.36	181.26	196.49	252.43	208.37	210.66
Europe (709)	207.48	0.5	198.66	142.64	160.35	179.05	0.5	3.15	206.42	196.47	142.55	160.13	178.20	213.30	189.33	195.65
Nordic (136)	297.58	0.5	284.92	204.58	229.98	255.15	0.0	2.42	296.14	281.88	204.52	229.74	255.10	306.61	261.13	278.52
Pacific Basin (980)	161.91	0.3	155.02	111.30	125.12	113.45	0.0	1.21	161.36	153.58	111.44	125.15	113.46	177.01	148.86	162.84
Euro-Pacific (1589)	180.78	0.4	173.09	124.28	139.71	138.30	0.2	2.14	180.02	171.35	124.33	139.66	138.00	190.57	166.51	176.29
North America (747)	251.74	1.0	241.03	173.08	194.55	251.15	1.0	2.30	249.19	237.19	172.10	193.32	248.60	269.52	220.03	224.51
Europe Ex. UK (509)	190.03	0.7	181.94	130.64	146.86	154.62	0.3	2.57	188.66	178.57	130.29	146.36	154.09	194.86	169.65	176.89
Pacific Ex. Japan (399)	276.29	-0.1	264.53	189.94	213.52	238.45	-0.1	3.08	276.69	263.36	191.09	214.65	238.60	298.68	243.59	264.55
World Ex. US (1799)	181.94	0.5	174.19	125.07	140.60	142.69	0.2	2.14	181.13	172.40	125.09	140.52	142.35	181.55	167.38	177.33
World Ex. UK (2226)	202.84	0.8	194.21	139.44	156.75	171.37	0.8	2.00	201.32	191.82	139.04	156.16	170.42	213.05	185.61	190.23
World Ex. Japan (1945)	235.66	0.8	225.94	162.22	182.37	222.45	0.7	2.63	234.15	222.80	161.73	181.66	220.81	247.55	212.82	216.55
The World Index (2426)	205.24	0.7	196.51	141.09	158.61	175.87	0.6	2.20	203.82	194.00	140.76	158.12	174.86	214.95	188.49	193.10

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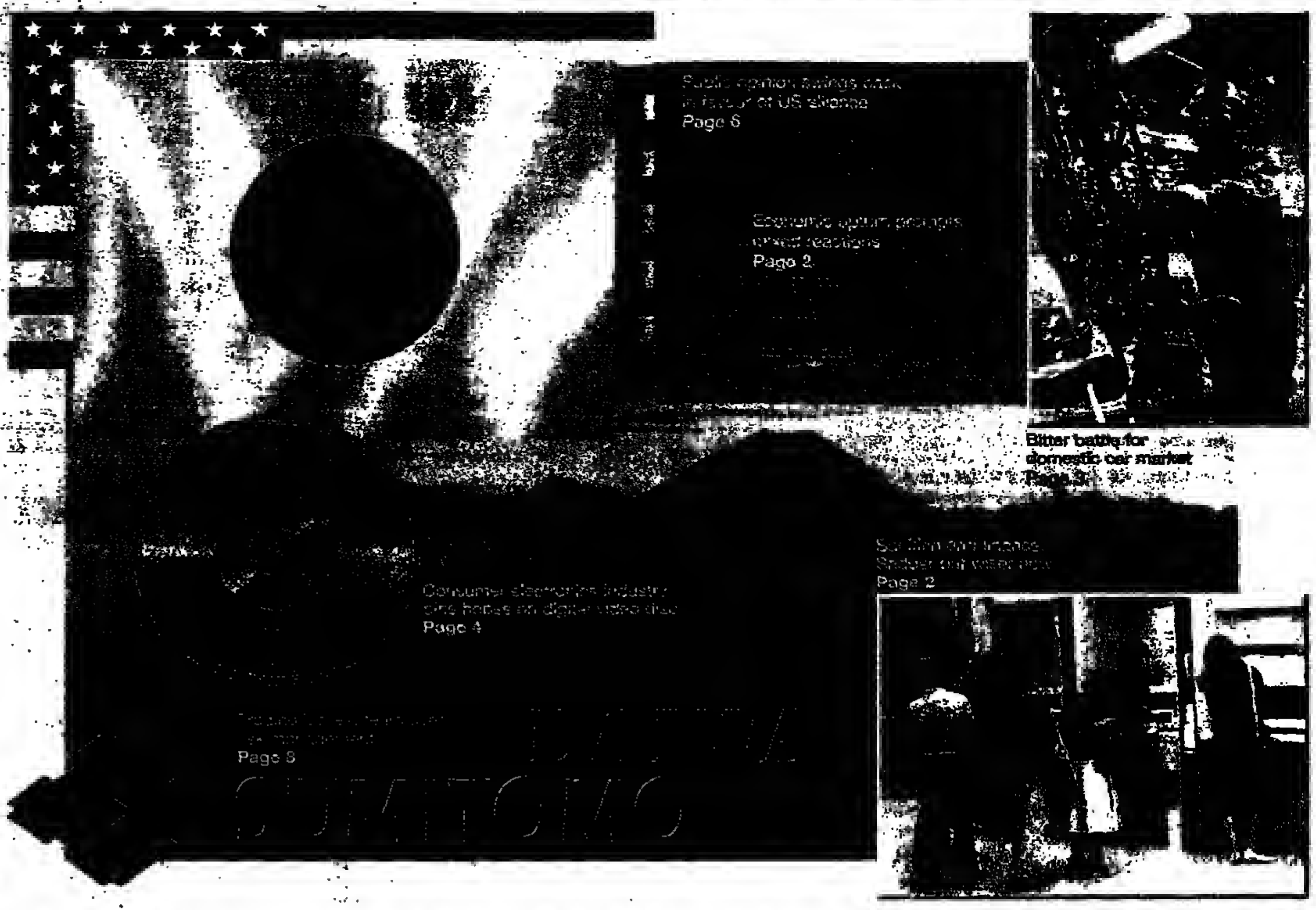
Japan



As productivity levels fall, there is a growing belief that the current return to prosperity is less assured than previous economic revivals, reports **William Dawkins** in Tokyo

Pressure relieved as economy shows signs of recovery

The clouds are lifting, and yet the changes wrought by the typhoon have been less dramatic than many Japanese at first thought.

The past four years of economic stagnation, exchange rate pressure, financial crisis and political upheaval have been challenging ones.

They have been seen by some as the potential catalyst for a new opening, on a par with the decade after the end of the Second World War, when Japan, driven by a different kind of crisis, made the transformation from defeated military dictatorship to one of the world's mightiest industrial democracies. The reality has been evolution, not revolution.

Certainly, the past few years have posed the biggest test yet of the old certainties that underpinned Japan's post-war success – unstoppable economic growth, stable one party government, an unshakeable alliance with a protective US, lifetime employment, and social stability.

Those values have been renegotiated but, on the whole, the foundations of the old system, conservatism and respect for consensus, have survived. The pressure is off, thanks to a weaker yen and economic recovery. Some economists fear that the pressure has come off too soon – *see report, page two.*

The resilience of the old system used to be a strength when high growth was a certainty. But it could, fear many politicians and economists, become a weakness in the years ahead, by delaying Japan's reaction to a new set of challenges: externally from the growing industrial competition from east Asia and China's growing economic and military clout, and internally, from the financial demands of the fastest ageing demographic profile of any leading economy and an explosion of government debt.

The first former certainty to be tested – endless economic growth – clearly holds no longer. It has been the longest downturn since the 1930s. Average output growth has slowed from just over 3 per cent in the last half of the 1980s, to a mere 0.6 per cent in the first half of this decade.

Even after this recovery, growth is expected to average a mere 2.4 per cent in the current decade, and halve to 1.2 per cent in the next, according to a recent study of the economic outlook in the next century by the Nihon Keizai Shimbun economic newspaper.

The second value to be put on trial – but this time proved to endure – is the dominance of the conservative Liberal Democratic Party. Three years ago, Japan appeared to be on the brink of peaceful revolution, after a band of LDP rebels left the party, threw it out of government for the first time in nearly four decades, and set up a coalition government devoted to economic deregulation and to putting consumers' interests before the producers' lobbies that used to dominate policy.

A year later, the LDP was back, in a curious coalition under a socialist prime minister. The LDP's revival strengthened further in January, when its leader, Mr Ryutaro Hashimoto, became prime minister. Opinion polls suggest the party will increase its size as the dominant minority in a general election later this year or early next.

There has been a deeper renegotiation of another important post-war value, relations with the US, which underwrote Japan's economic growth by relieving it of the need to provide its own defence, beyond its immediate frontiers.

Japan started to accord trade interests more prominence in its US relations three years ago, a belated consequence of the collapse of the Soviet Union. Tokyo's refusal to bend to US trade pressure has since toughened – and it is no accident that Mr Hashimoto owes much of his popularity to having resisted US demand in last year's talks on access to the Japanese car market.

At first, the foreign ministry was acutely anxious that being tough on trade might jeopardise the security link.

That anxiety reached a new intensity last autumn, when the rape of a schoolgirl in Okinawa by three US servicemen provoked an unprecedented public questioning of the value of the alliance, and the largest anti-US demonstrations since the 1960s.

But in the event, the debate proved the catalyst for both sides' governments to strengthen the alliance, as agreed at a summit between Mr Hashimoto and US president Bill Clinton in May.

There is now, say diplomats in Tokyo and Washington, an unspoken agreement to keep trade and security matters separate. The foundation of the alliance is, by common consent, secure, but Japan has won slightly more independence.

> Unemployment is at record levels for Japan, but still low by industrialised world standards

Another foundation of the Japanese system, the social contract of lifetime employment in return for a life of hard work and loyalty, has also been shaken – but again proved durable.

One of the recession's most salutary effects was to expose a surplus of labour in an economy that used to suffer from a shortage of workers. Corporate Japan accordingly cut its labour costs as hard as the taboo against redundancy would allow. Unemployment rose as a result from just over 2 per cent at the turn of the decade to a record 3.5 per cent at the latest count, in May. But cost-cutting has in fact been gentle, and many surplus workers were shifted to alternative back-office jobs.

Japan's high productivity, once generally accepted as the world standard, has weakened. Manufacturing output per man hour was ahead of the US before the recession. Now it is just over 70 per cent of the US level, according to the Japan Productivity Centre, a private sector think tank.

In short, the Japanese system has moved through the recession with remarkably little crisis. And yet there have, to be fair, been some significant changes in attitude.

The corporate world, for example, has been forced more open, for good and bad, to international market forces. It is why Rupert Murdoch's News Corp was recently able to take a stake in a Japanese television station and why Ford, the US car company could take management control of Mazda – both unprecedented investments, which could have never happened before the recession.

The erosion of old barriers to the outside world has sometimes been painful, as Daiwa Bank discovered when it was unable to conceal its $1.1bn US bond dealing losses, a blow to the international credibility of the Japanese financial system.

Another change is that the network of mutual obligations – between politicians, officials and businessmen – subtly loosened. This has opened the way for deregulation in a number of industrial sectors, such as telecommunications, oil refining, retailing and fund management. But deregulation overall has been patchy and moderate – and is certainly not a priority of the LDP government.

"The system is not exactly backward-looking. But there still has to be harmonious relationship between political powers and the civil service. Vested interests still have to be preserved," says Mr Dan Harada, a veteran political lobbyist.

For many Japanese, this relatively trouble-free passage through recent trials has been a boon, even if an enormous frustration for foreign companies still trying to prise their way into the many sectors still protected by official regulation and social tradition.

But for the citizens of Japan,

Continued on Page 3

■ Economic prospects • By William Dawkins

Mixed reactions on upturn

There is widespread scepticism among Tokyo economists over the sustainability of the latest recovery

Mr Nobuhiko Kawamoto, president of Honda, the car producer, is celebrating Japan's economic recovery from the longest slowdown since the 1930s with mixed feelings.

The company, he says, expects record profits in the current year. And yet if only the strong yen, a big factor in the past recession, had persisted for a little longer, Honda would have made better competitivity gains, he adds. Mr Kawamoto's remark highlights the central dilemma of Japan's economic future.

It took a crisis, last year's rise of the yen to Y79.75 to the dollar in April, to force companies to start to cut surplus labour and industrial capacity – some of the main weaknesses exposed by the post-bubble downturn. But the yen has since weakened by 27 per cent, after hovering for just four months between a punishing Y80 and Y85.

Has Japan emerged from this recession in leaner and meaner shape? Or has the pressure come off too soon, before company bosses have had a proper chance to persuade a conservative society to make painful changes?

On the surface, it looks as if the Japanese economy has once again demonstrated formidable underlying strength. In the first quarter of this year, gross domestic product expanded by an annualised 12.7 per cent, the fastest for 23 years, or by 5.7 per cent from the same quarter last year. It is the second quarter of robust growth, after a 2.7 per cent year on year increase in the final three months of 1995.

Most economists think those figures over-state actual growth, because of a host of statistical anomalies. But even so, the consensus is that the economy will grow by between 2.5 per cent and 3 per cent in 1996, a decisive end to three years of stagnation.

For once, the three main engines of Japan's economy – private spending, corporate investment and government investment – appear to be firing together. In the first quarter, private consumption rose by 5.1 per cent against the same period last year, corporate investment by 7.4 per cent and government investment by an astonishing 27.2 per cent, according to the government's Economic Planning Agency.

The data may be imperfect, and yet companies are behaving as if the upturn is, unlike false dawns in each of the past three years, real. Cheered by a 23 per cent rise in pre-tax profits, the fastest growth in seven years, several leading companies – including Honda – have started to hire people again.

As a result, the ratio between available jobs and job seekers started to improve from the middle of last year. But it has not been enough to make a dent in overall unemployment, which hit a record 3.5 per cent last month.

There is, at the same time, evidence that recession did bring some structural change – but again, this is restricted to a few specific areas. Deregulation has been slow, but it has begun to make an impact. In retailing, there has been fast growth in supermarket openings and a decline in prices, as restrictions on new stores have been partially dismantled by law.

Several important sectors – such as telecommunications, television and oil importing – have been opened to foreign competition.

The taste for change extends to industry policy. The acquisition of a controlling stake in Mazda by Ford, the US car company, and the purchase of a large shareholding in Asahi National Broadcasting by Mr Rupert Murdoch's News Corp, suggests that forces of change are meeting the least resistance for decades.

So much for the good news about Japan's immediate recovery. Yet several constraints to medium and long term growth remain.

First, there is widespread scepticism among Tokyo economists over the sustainability of the recovery. The consensus – admittedly of very disparate forecasts – is that GDP growth will ease to a sedate 2 to 2.5 per cent next year. Why?

For one reason, the recovery is largely driven by the government. It would, indeed, have been a disaster if the economy had failed to pick up, having received last September the largest fiscal and monetary boost in modern Japanese history, a halving in the official discount rate to 0.5 per cent and a Y14,220bn public spending package, worth an estimated 1.5 per cent of GDP in new money.

Those benefits will soon wear off. The Bank of Japan, acutely anxious to avoid another liquidity fuelled explosion in asset prices, is widely thought to be looking for an opportunity to raise interest rates, probably in the autumn.

By then, last year's fiscal package will have been exhausted, and only partly compensated for by a much smaller spending package now being concocted by the ruling Liberal Democratic Party.

Another jolt to demand will come next April, when sales tax is to be increased from the present 3 per cent to 5 per cent.

To make matters worse, there has been an acceleration in the amount of production to be moved offshore in the search for lower costs. Migrant companies send goods back home, detracting from GDP, and without reducing the overall surplus of industrial capacity. In the year to last March, 18 per cent of total production was offshore – up from 3 per cent 10 years go – according to a survey by the Japan External Trade Organisation. That proportion is forecast by Jetro to rise to nearly 27 per cent by the end of the decade.

Domestic demand, meanwhile, is weaker than the recent GDP figures suggest. There has been a decline in outstanding bank loans in every month since last September, suggesting that demand for cash is weak, argues Mr Richard Koo, senior economist at Nomura Research Institute.

Most of the stimulus, he argues, has therefore come from expansionary fiscal policy, rather than from low interest rates. The expected fiscal tightening would thus be a grave mistake, argues Mr Koo.

Japanese investors appear to appreciate this, in that they have been keen buyers of government bonds in recent months. Foreign investors, eager buyers of equities, continue to believe in the economy's underlying strength, points out Mr Koo. Only time will tell whether Japanese bond buyers or foreign equity buyers are right.

But time points to two other long term constraints on growth: an ageing population and declining productivity.

Japan has the fastest ageing demographic profile of any leading economy. The proportion of over 65s will rise from the present 18 per cent of the population to 27 per cent by 2010, according to the Organisation for Economic Co-operation and Development.

Yet Japan's pay-as-you go pension system is underfunded. This, plus the past few years of heavy fiscal spending required to get the economy back on its feet, point to a rapid increase in government debt, likely to push up interest rates.

Without radical action, such as further rise in sales tax, cuts in pension payments and increases in contributions, net government debt would explode from the present 10 per cent of GDP to nearly three times national income by 2030, predicts the OECD.

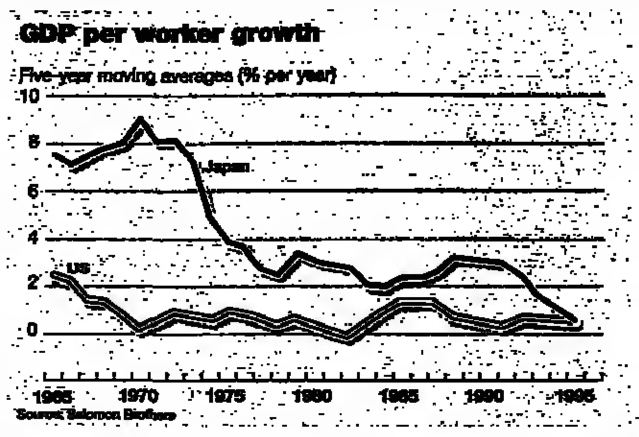
Along with the grey wave, has come a decline in productivity growth – the rise in GDP per worker – from 3 per cent 20 years ago, to around 0.6 per cent, just below the US, now.

It is hard to guess how much of this decline in productivity is due to the temporary fall in output of the past recession and how much is the structural consequence of over-regulation and the resistance to change bemoaned by the president of Honda.

But if productivity growth stays at this level, GDP per head will be barely changed in three decades' times, forecasts Mr Robert Feldman, research director at Salomon Brothers Asia. If Japan is to avoid falling back into stagnation, a crisis may be just what is needed to provoke structural change.

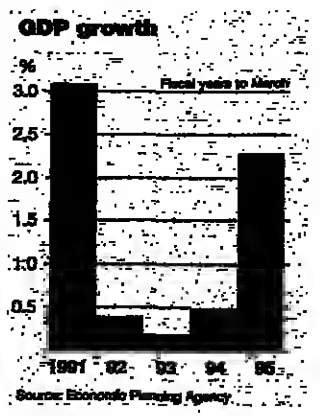
GDP per worker growth

Five-year moving averages (% per year)



Source: Salomon Brothers

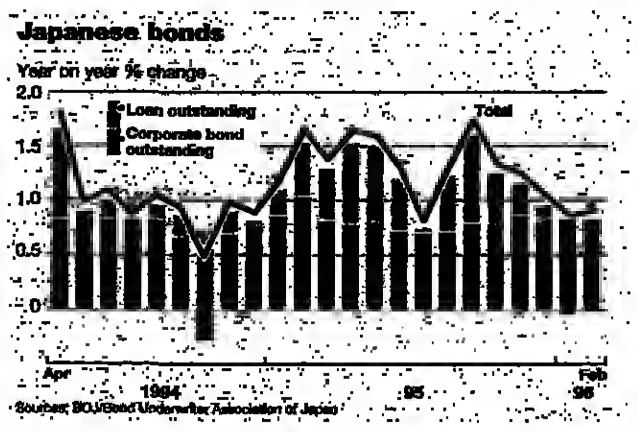
GDP growth



Source: Economic Planning Agency

Japanese bonds

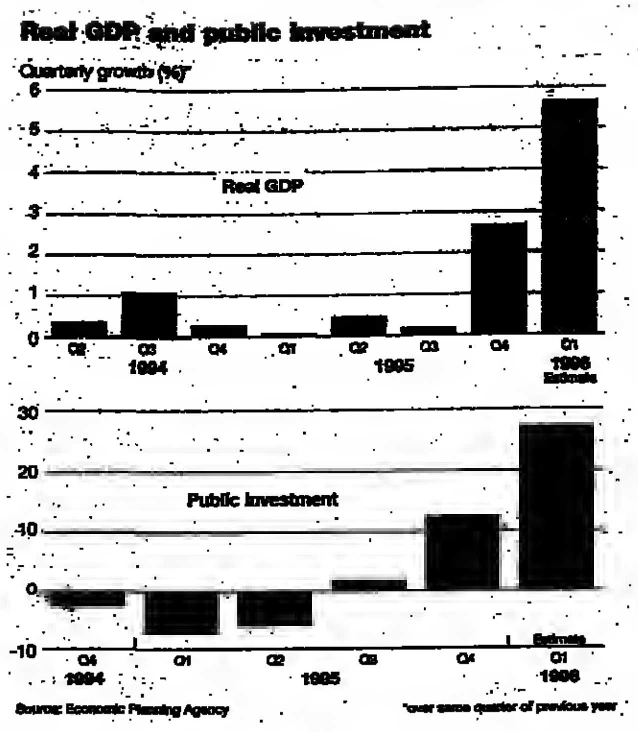
Year on year % change



Source: BOJ, Bond Underwriters Association of Japan

Real GDP and public investment

Quarterly growth (%)*



Source: Economic Planning Agency

*over same quarter of previous year

■ Banking and finance • By Gerard Baker

Sadder but wiser now

Bankers are on the defensive. To ensure there is no repeat of the disasters of the last few years, the government is committed, at least in principle, to shaking up the financial system

Ten years ago, if you believed the lurid headlines, Japanese banks were poised to conquer the world. Propelled by the country's enormous financial surpluses – the world's largest – financial institutions' growth was geometric. Having been largely obscure foreign names in the 1970s, by the mid-1980s, the Japanese accounted for six of the world's ten largest banks.

But what most impressed outsiders about these newcomers was their apparent strength. The largest banks very quickly earned top credit ratings. The reason, according to financial analysts, was that they enjoyed hidden strengths way beyond simple balance sheet measurements.

Today, those hidden qualities are viewed rather differently. The Japanese may still dominate global financial markets by scale, but the reality that now lies behind those figures is much more likely to scare foreigners than to impress them.

> Reputations of some of Japan's leading institutions have now been sullied by recent failures

The disastrous losses of the last few years have put Japanese banks in disgrace at home and forced them to retrench abroad. And in spite of their grand claims that the worst is over and that they have learned their lessons, you would have to be brave to believe either proposition.

In the last year, more than at any other time in post-war Japanese history, the country's banks have been close to the edge. Having avoided a single financial failure in the previous 20 years, Japan has now had eight in twenty months.

The reputations of some of its leading institutions have been sullied by an endless stream of revelations about fraud, corruption, even connections with gangsters. The once unimpeachable finance ministry, the sturdy carer of the banks' world, has been all but publicly impeached for incompetence and worse.

The root of the problem, is by now familiar to almost everyone – the hubris that took hold of the normally sober Japanese during the so-called "bubble economy" of the late 1980s. Banks mistook the speculative growth of land and stock prices in the late 1980s for real underlying economic strength – and lent accordingly.

Like a storm that had long threatened to break, the accumulation of bad loans hung over the economy throughout the early 1990s.

It was last summer when that storm finally broke. A string of smaller credit associations collapsed in a mini-summer panic. In August, Hyogo Bank became the first listed bank to fail for half a century. Then Daiwa Bank, one of Japan's largest, was thrown out of the US for hiding massive losses from American regulators – a cover-up at which, it was claimed, the finance ministry itself connived. Japanese banks were forced to pay a high premium to borrow in international markets as fears of a systemic collapse spread.

Finally, at the end of last year, came the government's ill-conceived plan to spend Y685bn of public money

Continued on facing page

Banks are forced to put their chaotic houses in order

Continued from facing page

towards a bailout of the country's virtually bankrupt so-called housing loan companies.

This last move had the effect of adding the wrath of popular disapprobation to the banks' woes. Revelations about improper relationships between banks, the housing lenders, the finance ministry and a host of characters from the criminal underworld infuriated taxpayers, who were being asked to foot part of the bill.

It was only last *month* that the government won a Pyrrhic victory by getting parliament to approve the bailout after promising to reduce the public contribution to it.

Bankers, then are on the defensive.

To ensure there is no repeat of the disasters of the last few years, the government is committed, at least in principle, to *shaking up* the *financial* system – deregulating faster, forcing banks to take more individual responsibility for their actions, rather than have the regulators underwrite their folly.

And even the powerful bureaucracy itself has had to take its share of the blame. The crisis has led to calls for reform of the finance ministry too, though that seems likely to come to naught.

The banks themselves have started to put their chaotic houses in order. In the year to March, the big lenders wrote off more than Y10,000bn in bad loans, and reported record combined pre-tax losses of Y3,000bn as a result.

Several banks have even *started to* 'review their global ambitions' – code for retrenchment. The Long Term Credit Bank of Japan (LTCB) and Sumitomo Bank were the first to have formally committed themselves to shrinking their balance sheets. And all banks claim they are sadder but *wiser for their experience.*

But few doubt that old problems remain. For one thing, in spite of efforts designed to improve their poor disclosure practices in the last year, banks still keep investors and customers in the dark about the full extent of their ultimate liabilities in the bad debt mess. There are still billions of dollars in bad loans at non-banks and other financial institutions few people have even heard about. Much of that will have to be covered by banks, yet no-one knows how much.

What is more, while attention has been *focused* on the role of individual banks and their managers in the debacle of the last few years, there has been little attempt to address the *real systemic* problems that helped create it.

These come down in essence to a banking *structure* that was designed for a different era of economic development –

> *There are still billions of dollars in bad loans to be covered*

a system designed to ensure that banks channelled cheap *funds* to capital starved industry in the heady days of the 1950s and 1960s.

That stage of economic growth in Japan is now long past, leaving banks seeking a new role. Yet the strict rules that still limit what banks, securities companies and other institutions may do, prevents them from developing that new role.

As the Japanese economy slowly gathers momentum after the long recession of the last four years, the immediate *pressures on banks and on the* financial regulators to change will subside.

But it will be a pity if the pressure disappears completely. Without a radical overhaul of the very structures of Japanese capital, the economy will ultimately be *handicapped by an essentially* uncompetitive and outmoded financial system. That is not something the rest of the Japanese corporate sector will welcome.

■ **Motor industry** • By Michiyo Nakamoto

Bitter battle for domestic car market

New vehicle sales last month slumped by 4.3 per cent, year-on-year

In an effort to boost their sagging fortunes, Japan's leading car makers last year called upon the services of two *young* baseball players whose spectacular performances made them national heroes and helped to revive waning popular interest in the game in the process.

Toyota, the country's largest *car manufacturer*, enlisted Hideo Nomo, who rose to national fame, both in Japan and the US, with his "tornado" pitch for the Los Angeles Dodgers, the big league team, following Nissan's employment of Ichiro Suzuki, a *leading* batter with the Orix Blue Waves.

But as competition in the domestic car market intensifies amid a fragile recovery, both companies must be hoping that their performance does not follow the example of the two heroes who have put in a somewhat less than stellar performance this year.

Japan's car manufacturers are fighting an increasingly bitter battle for the home market. Last month, sales of new vehicle slumped by 4.3 per cent year-on-year, according to the Japan Automobile Dealers Association. For the first half of the year, new car sales in Japan have fallen 0.7 per cent to 1.81m units.

The market's sluggishness, in a year which is supposed to see strong replacement demand from the large numbers of consumers who bought their cars during the peak years of the bubble economy, has prompted concerns that market growth this year will not achieve the level forecast at the beginning of the year.

Mr Yoshifumi Tsuji, chairman of the Japan Automobile Manufacturers' Association, Jama, indicated recently that given the weakness of demand in the first half, the industry association's forecast for demand in the Japanese market may have to be revised. Mr Tsuji said that while *demand* is undoubtedly coming back, "it is insignificant".

The domestic market is crucial to maintaining production in Japan, which has fallen dramatically due to the *shift* overseas. In the past five years, domestic production has dropped by 3.80m units – a figure equivalent to the total annual production in Japan of Toyota, Japan's largest car maker, or three times that of Honda.

Against this *environment*, Japanese car makers are focusing their energies on the one sector of the domestic market which appears to guarantee success, at least for the time being.

Recreational vehicles, *including* station wagons, off-roaders and mini-vans, have been attracting much of the buying among Japanese consumers who have been avidly pursuing a new-found taste for the great outdoors and the do-it-yourself lifestyle.

These vehicles, which were not a popular sector of the market until about four years ago, have increased their share of the market from 15 per cent in 1991 to nearly 30 per cent last year with 1.37m units, according to Jama.

Japanese car makers which have a strong RV line-up have benefitted greatly from this trend. Although it has been losing ground recently, Mitsubishi Motors, for example, had put in a strong performance over the past few years, largely on the strength of its RVs.

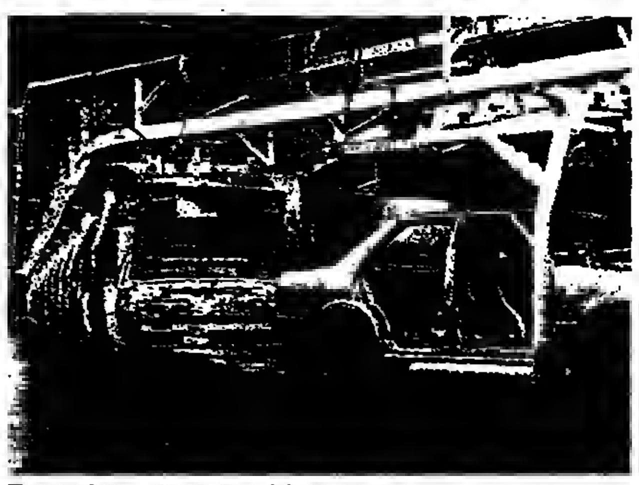
Honda, which suffered two years of declining profits in 1993 and 1994, has made a strong recovery on the back of its widely sought RVs which have been introduced in rapid succession over the past year and a half.

Contrast

Meanwhile, Toyota, which has been under pressure in the domestic market due to a *sharp* decline in sales of medium range mass-selling models, such as the Mark II, has enjoyed a flood of orders for its Ipsum, a newly launched mini-van. But even as they try to make the best of the RV boom at home, Japanese car makers are looking further ahead to a future of greater uncertainty.

Few expect a continuation of the kind of strong demand for RVs that is seen today. The question that every Japanese car executive is *asking himself* is: "What next?"

There is no doubt that the maturity of the Japanese market has led to a diversity of taste, notes Mr Akihiro Wada, executive vice president of Toyota. "Each market is different. But the Japanese market has a particularly strong tendency to undergo dramatic swings in preference," he says. The RV boom is a case in point.



The race is on to cut costs and development time

Yet true to their reputation for *kaizen*, or continuous improvement, Japanese car makers have been busy taking steps to prepare for the eventual swing in the market that could be calamitous for an ill-prepared company.

One of the ways in which companies are working to strengthen their position is by *reducing the amount of time* it takes to develop a new model.

Toyota, for example, says it has brought down development time – from when the design is fixed to when the car is put on the manufacturing line – to *about 18 months. Development* of the Ipsum, which was developed under very favourable conditions as far as the availability of engineers went, was completed in 15 months, according to Mr Wada. This compares with a target of 28 months for the US Big Three.

"The reason why we are reducing development time is because it is so difficult to tell what kind of cars will sell, either in Japan, in the US or Europe," Mr Wada notes. "Trying *to foresee what kind of car* will sell can't be done by market research," he says.

Toyota, along with many other car manufacturers, uses what is known as "simultaneous engineering" whereby different steps in the development process take place at the same time, rather than in sequence. But the company has taken *simultaneous* engineering further than most companies, Mr Wada claims.

Usually, simultaneous engineering involves the manufacturing department *taking* part in discussions during the development stage to make suggestions on what can – or cannot – be done on the production line or how a particular feature on a new model might boost costs.

But at Toyota, the production engineering *division* people look at the design before it is fixed and only after the design and manufacturing teams agree on the design does it go up to top management for approval.

The process is not restricted to just discussions between different teams, but the factory thinks ahead about how the car is to be manufactured while the design is being considered. This is possible because the company generally knows where a particular model is to be manufactured by the time the design is fixed.

The system gives Toyota a significant advantage over car makers which do not decide where a particular model is going to be *made* until a relatively late date.

A shorter development time may be crucial in responding quickly to a fickle market. However, Honda, which has been one of the greatest success stories in the RV market, says that it is having a winning *concept* for cars that determines success.

Honda has recently introduced a slew of market-winning RVs, seemingly at a rapid pace. The CR-V, a sports utility vehicle, was indeed, developed in 17 months. But the company says that it took 38 months on the development of two of its most recent vehicles.

"From my point of view, reducing development time is not a priority of our development strategy," emphasises Mr Tomoyuki Sugiyama, executive chief engineer at Honda. "The most important thing is the concept," he says.

In the recent years, as it was faced with the need to cut costs drastically, Honda has succeeded in increasing the use of common parts in its range, thus savings costs and development time. For example, 50 per cent of the Odyssey's parts – in value terms – comes from other Honda cars, as does 60 per cent of the parts in the Orthia, a station wagon based on the Civic.

But Honda, which did not have its own recreational vehicles until it introduced the Odyssey in late 1994, has been successful even as a latecomer, mainly because of the new concept it introduced into the Japanese market – that of an RV, based on passenger cars.

Unlike RVs based on trucks, Honda's RVs which share engines with the Accord and other passenger cars and use suspensions that *offer the* smooth steering and comfort of a sedan, have appealed to a growing number of users who want an RV but do not want to drive a truck.

Honda has tried to differentiate its products by spending sufficient time to develop a concept that is unique and that meets market needs.

Whether it is a shorter development time, or bright ideas, that will determine tomorrow's winners, one certainty is that the turbulence in the domestic market has found Japanese car makers competing to improve their skills even more, which in turn, is bound to further raise their competitiveness in world markets.

Prosperity now less assured

Continued from page 1

the country is safe and prosperous. Unemployment, even at its record high, is among the lowest in the industrialised world, and GDP per head is among the highest. And yet, there is a growing sense that the *current return* to prosperity is less assured than previous economic revivals.

Social strain

If productivity growth continues to fall at its present rate, living standards will start to decline in 15 years' time, according to a projection by Salomon Brothers, the US securities house.

What is certain is that the proportion of people over 65 will rise by nearly 10 percentage points to 27 per cent of the population by 2010, placing huge demands on the government budget and a social strain on the workforce.

The fear is that the existing consensus-based system cannot react fast enough to deliver the reforms in tax, social and industrial policy needed to cope with Japan's accelerating transition to a mature economy.

The problems of the future will be different, but the system has not yet adapted. It will be a rocky road.

□ Japan's movers and shakers: personality profiles – see Page 7
□ Political scene: moving full circle – see report, Page 8

■ Energy requirements • By Emiko Terazono

Public anxiety over nuclear power

An incident at an experimental fast breeder reactor in western Japan last year has fuelled opposition towards nuclear energy

The Japanese government has learned to add an environmental twist to its message over the country's energy policy: relying on fossil fuels will increase the amount of carbon dioxide emissions, but nuclear energy will help prevent global warming.

It is hoping that a new long-term projection of the country's supply and demand for energy will back up its claims. The Natural Resources and Energy Agency, an affiliate of the Ministry of International Trade and Industry (Miti), has started to make a forecast up to the year 2030.

For a country which is acutely anxious over the lack of natural resources, nuclear energy and recycling waste to produce plutonium, which feeds on itself to produce more plutonium, had seemed a boon. Japan now depends on more than a third of its energy from nuclear power; the government wants to increase this ratio and cut the country's reliance on fossil fuels.

However, the government needs all the support it can get as public anxiety towards nuclear power has heightened over the past few years, threatening the government's agenda to promote nuclear energy. The adverse climate for nuclear power has boosted the amount of time and money needed to obtain local approval for the purchase of land and construction of nuclear reactors.

According to a survey by Miti, during the 1970s, it took 10 years for an electric power company to start operating a plant once the plans were announced. However, this has rose to 17 years during the 1980s and 25 years in the 1990s.

Although the Japanese government's energy plan calls for the construction of 15 nuclear power stations over the next 14 years on top of the existing 47 in order to produce 70.5m kilowatts of power by 2010, there is a fear that the target may not be met.

Some utilities have already abandoned nuclear reactor construction plans. Kyushu Electric Power, which operates in the southern island of Kyushu, recently announced a freeze on its plans to build a nuclear reactor in Miyazaki, due to strong local resistance.

The problem has been aggravated by last year's leak of three tonnes of non-radioactive sodium coolant from an experimental fast-breeder reactor in western Japan which has fuelled opposition towards nuclear power.

The public outcry and calls for a permanent closure of Monju in Fukui has been so great that the government has not been able to set up a clear plan to relaunch the reactor.

The handling of the incident by the Power Reactor and Nuclear Fuel Development (PNC), the state-owned operators of Monju, compounded the problems. The PNC initially hid video footage of the damage caused by the leakage and also failed to report the accident immediately to the municipal government.

> Fears over nuclear power have risen in recent years

A plan by Tohoku Electric Power, which supplies electricity in northern Japan, to build a nuclear reactor in Maki, a town of 30,000, is hanging in the balance and may become the latest casualty of the Moju fallout. Tohoku Electric had announced the construction plan in 1969, but the project has been fraught with problems from the start.

The company paid local fishermen Y4bn in compensation but was forced to halt purchase procedures in 1983 as land speculators and anti-nuclear groups bought up small lots of land in the planned location.

The plan has divided residents of Maki, and calls for a referendum heightened in 1994, following a controversial announcement by Mr Kanji Sato, the then mayor who had been elected on an anti-nuclear platform, that he would support the construction of the power plant.

Mr Sato was forced to resign last year following a request for his recall accompanied by signatures of 10,231 Maki residents.

The new mayor, elected earlier this year, plans to hold a referendum over the nuclear power plant construction next month.

The government fears that a further rise in the anti-nuclear climate will hit the country's nuclear industry, consisting of plant makers, general contractors, heavy industry companies, and leading electronics companies. Many have already started to restructure their nuclear plant divisions and are looking for business opportunities overseas, especially in Asia.

The situation is especially severe for the Mitsubishi group, led by Mitsubishi Heavy Industries which specialises in pressurised water reactors, (PWRs)

Ever since an accident in 1991 at the Mihama PWR plant – located in the north of Kyoto, and built by Mitsubishi for the Kansai Electric Power – plans for PWRs have been non-existent.

New reactors planned for construction in Japan over the next five years have been boiling water reactors, which are made by groups led by Hitachi, and Toshiba, and while PWRs still dominate the international nuclear industry, Mitsubishi has no new orders after a PWR which is under construction for Kyushu Electric.

For the companies, the grass looks greener in Asia, the region's rapidly growing economies are creating demand for electricity, and about 20 nuclear plant projects are being planned in Asia, including China and Indonesia. Plant and equipment-makers, including Mitsubishi Heavy Industries, Hitachi and Toshiba, are eager to enter the expanding market.

Meanwhile, the government has belatedly started to look at other sources of energy. Two years ago, Miti started a programme to promote solar power generation, where the government foots half of the costs of solar power generators installed at newly-built homes.

■ Steel industry • By Emiko Terazono

Asian rivals undercut prices

Japan's steel industry is sounding warning bells over the rising threat from international steel producers

Although the gradual recovery of the Japanese economy has helped the country's leading steelmakers – battered by recession and the high yen – back into the black, in addition to the rise in raw materials and sluggish export demand – the industry is facing increasing competition from China, Taiwan, Korea, the US and other countries.

A report recently released by the Japan Iron and Steel Federation highlights the rise of China as a leading steel producer, eager to displace Japan from its spot at the top of the steelmaking list.

China aims to boost crude steel production to 105m metric tons by the year 2000, compared to the current 94m metric tons. Under its most recent five-year plan, China aims to increase crude steel production by 2.2 per cent a year, according to the report.

Growth in demand from the rapidly developing Asian region has presented opportunities for the world's steelmakers, but at the same time the region's manufacturers are also starting to increase capacity. And although, in the past, Japanese steel maintained a premium due to its superior quality, Korean, Taiwanese and US steelmakers have caught up – hitting prices. The Chinese, for instance, have started to compare prices from North American, European, Japanese and South Korean companies.

In the face of rising capacity, the Japanese strategy has been to cut down export volume to maintain prices. This is likely to affect their export revenues once Asian steelmakers step into take market share, say industry analysts.

POSCO, Korea's state-owned steelmaker, has especially started to export aggressively. The company has announced that it will be putting more emphasis on exports to China and south-east Asia this year. With demand in the region expected to rise only slightly this year, Japanese steel companies could see their export revenues displaced as POSCO is poised to take market share, believes ING Barings in Tokyo.

Adding to the pressure, is Japanese companies' increasing enthusiasm for cheaper steel from overseas. Japanese trading companies are taking advantage of lower priced Korean steel and are now planning to supply steel produced in Korea to Japanese manufacturers based in Asia.

Employment levels in the steel industry have been cut back drastically

Picture by Ashley Ashwood

Marubeni, a leading trading company, recently announced that it would form a joint venture with Daewoo of Korea and a Thai corporation in order to supply low-cost Korean steel to Japanese car and electronics companies with manufacturing bases in south-east Asia.

Meanwhila, the improved quality of Korean and US manufecturers and the high yen have eroded loyalty among domestic steel users which are turning to imports from Korea and other Asian suppliers. POSCO, for example, has cracked the Japanese market, supplying steel to car makers including Mitsubishi Motors, Nissan Motor and Honda Motor.

In order to counter such trends, Japanese steelmakers have started to follow the car and electronic manufacturers overseas. In tha next two years, the country's leading five steel companies are expected to have cold-rolled steel sheet plants in Thailand.

Cost-savings

Amid the adverse climate, the country's steel companies have intensified their efforts to cut costs by personnel reduction, asset sales and dabt reduction. In spite of their problems, the companies have continued to uphold the Japanese traditional management system and have resorted to a freeze on job hiring, while introducing early retirement echemes in order to rednce overhead costs, rather than announce redundancies.

According to UBS Securities in Tokyo, nverall employment levels have been cut drastically, from 23,000 in 1992 to 19,000 last year, while the number of workers in the steel divisions have fallen by 25 per cent from 16,000 to 12,000 during the same period.

The reduction of white collar workers bave also been large, with overall white collar employment falling by 20 per cent and headquarters' staff declining by 28 per cent. Industry analysts expect further job cuts over the next few years, playing the key role in the companies' efforts to push up profits.

The companies have also started to focus on their balance sheets in order to cut back under-performing assets. The industry's return on assets has been less than 1 per cent over the last 15 years and return on equity only 3 per cent. Although there is a cultural attachment to property, companies are becoming aware of the drain on return on equity by unutilised land and selling cross holdings, and increase in financial income has in turn belped them to pay down debt.

Of the country's leading five steelmakers, cost-reduction programmes at NKK and Kobe Steel have been the most aggressive. NKK reduced its debt by Y163bn in 1995 to Y900bn, tbe first time in 20 years that it debt has fallen below Y1,000bn. The number of employees in the parent company was cut by 9 per cent and costs by Y73bn.

In terms of asset reduction, tha company freed up 1.6m square meters of land valued at Y200bn. Although the company is unlikely to sell it at its current value, the proceeds will help its debt reduction effort.

In spite of its damages from last year's earthquake, Kobe Steel is expecting to return to the black this year thanks to job cuts and debt reduction. The company lost prodnction ability of its smaller factory in Kobe and up to 60 per cent at its Kakogawa Works. The earthquake set back the company's restructuring plan scheduled to finish in 1995 to 1997. The company is focusing on improving production procedure in order to increase yields, personnel reduction and cutting operating costs.

■ Consumer electronics • By Alice Rawsthorn

Computer suppliers move into traditional electronics terrain

The consumer electronics industry is now pinning its hopes on digital video discs which are able to play films at far higher quality than video cassettes

Day after day this summer, dozens of people have squeezed into Sony's showroom in the Ginza area of Tokyo to try out the Glasstron, which went on sala last month as a portable headset that functions like a personal cinema.

The excitement about Sony's new product harks back to the heady 1980s when consumers crowded into the showroom to check out the first generation of video cassette recorders and compact disc players. However, it paints a somewhat deceptive picture of the current fortunes of Sony and other Japanese consumer electronics companies such as Matsushita, Sharp, Sanyo and Toshiba.

Japan's economy may have recovered from recession, bnt the electronics industry, which led the country's export drive in the 1970s and 1980s, is under intense pressure at home and abroad. It faces fierce competition in its conventional markets from new competitors in other Asian countries, and is threatened by the incursion of personal computer makers into the entertainment sphere.

The industry's difficulties started when the Japanese economy slid into recession in the early 1990s and demand faltered in the hitherto buoyant domestic market. This problem was aggravated by a number of other factors that boded ill for the electronics companies' longer term prospects.

One issue was that cheaper products made by rival manufacturers in fast-expanding Asian economies – notably Taiwan, South Korea, Malaysia and the Philippines – were gaining ground in the the Japanese market thereby depressing prices and profitability.

Competition from these new rivals has continued despite the Yen's recent weakness. One leading Japanese manufacturer estimated that 70 per cent of all audio products now sold in Japan come from other Asian countries, against 20 per cent a decade ago. These countries also account for 50 per cent of video cassette recorders and 40 per cent of televisions.

Conversely, the strong Yen has locked the Japanese out of these dynamic markets, and has also made it difficult for them to compete in the established export sectors of North America and Northern Europe.

Most companies have tried to counter the rising Yen by sourcing more of their products and components outside Japan. However, the impact of this strategy has been hampered by the fact that many of the prodncts which catalysed the industry's growth during the 1980s, including VCRs and compact disc players, have now hit maturity.

There are some pockets of growth. Wide screen television sets have proved extremely popular in Japan, where sales are expected to rise from 2.8m in 1995 to 3.8m this year, according to Matsushita. Similarly digital camcorders have revitalised the camcorder sector, achieving sales of 140,000 last year, with 490,000 forecast for 1996 and 1.8m for 2000.

Despite these successes the overall market has remained sluggish and sales of other recent "innovations", such as Sony's MiniDisc and Matsushita's digital compact cassette (jointly developed with Philips of the Netherlands) have been disappointing.

The industry is now pinning its hopes on digital video disc, the advanced compact discs that can be used for data storage and for playing films at considerably higher quality than video cassettes. However, DVD's development has been clouded by rows over technical specifications and latterly copyright issues. Matsusbita and Toshiba, which had hoped to bring the first DVD entertainment systems on to the market this autumn, may have to delay their launch plans.

However, the overwbeening threat facing the consumer electronics industry is the expansion of the computing sector.

Multimedia PCs

First, the success of personal computers has already diverted consumer interest and expenditure away from conventional electronics. More ominously, computer manufacturers are now moving into traditional electronics terrain as the new wave of multimedia PCs combine the functions of TV sets and audio-CD players with data manipulation and storage.

Almost all the Japanese groups misjudged the potential of the computing sector. When PC sales were poised for dramatic growth in the late 1980s, the prevailing wisdom in electronics was that investment in entertainment software was the key to success.

Matsushita and Sony both made expensive Hollywood acquisitions at the time. The former ended its rocky relationship with MCA last year by selling control to Seagram, the Canadian drinks company. Sony has clung on to the Columbia-TriStar film studio, but has incurred heavy losses.

While these companies struggled in Hollywood, the PC sector went from strength to strength. The electronics groups have tried to compensate by supplying components to computer-makers. This strategy has proved reasonably successful. Components form one of Matsushita's most dynamic businesses. Sony is a leading manufacturer of CD-Rom drives – as is Sharp in liquid crystal display technology.

Similarly, many electronics companies have developed successful multimedia products of their own. The PlayStation video games system is the fastest-selling launch in Sony's history achieving sales of over 4m units in 18 months.

Sony now has high hopes for the Glasstron and for the PC it will introdnce this autumn. Meanwhile, Sharp has nurtured a lucrative new market with its Zaurus personal information tool, a portable communication system expected to increase its sales from 415,000 units in 1995 to 850,000 this year.

However, these successes do not fully compensate for the problems in the rest of the electronics market. After the disappointments of the past few years, Japan's consumer electronics companies now face a tough task if, after decades of being lauded as symbols of the country's industrial rise, they are to avoid being regarded as totems of decline.

Computer buffs throng Tokyo's Akihabara shopping district. Enthusiasm for multimedia personal computers is now diverting interest away from more traditional consumer electronics

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■ Employment • By Emiko Terazono

Breaking with tradition

The squeeze on corporate earnings and increasing pressure to boost productivity have prompted Japanese companies to take a radical look at traditional employment systems

Money dealers under pressure: employment stress levels among middle-aged men are rising, too, with corporate restructuring

Lifetime employment – where a staff worker remains with an organisation for the whole of the working career, along with seniority-based payment and promotion, are among the factors now being criticised for eroding efficiency and productivity.

In the past, however, Japanese-style management systems were upheld as key factors supporting the country's economic growth. It was widely believed that lifetime employment and seniority payment offered workers security while ensuring the company a stable and loyal workforce. The Confucian consensus-oriented system also meant that employees at the lower end of the corporate hierarchy were still part of the decision-making process, giving them an incentive to participate in the improvement of the work place.

An egalitarian compensation system – where the salary differential between executives and ordinary workers is relatively small – has also helped relations between management and employees.

The system, however, has become a burden on corporations in the recent years as they face slower economic growth. An automatic pay increase for each additional year of employment has weighed on earnings and has also decreased the incentive for productivity and creativity among workers.

Some of the country's leading companies have started to phase-out traditional labour practices. Nomura Research Institute, the think-tank subsidiary of the securities house, and Honda Motor are examples of companies trying to implement a merit pay system where salaries are reviewed every year. Fujitsu, the electronics maker, has begun tying managers' bonuses to their individual performance.

Meanwhile, Sony, the consumer electronics company, is trying to shift its executive salaries to a more market-oriented system. The company has started to give warrants to its board members – these are securities giving the holder the right to subscribe to a company's stock at a given price, during a given period – in lieu of the annual increase in basic salaries.

The scheme is supposed to give executives more incentive to work for the company's profit growth, which in theory should push up its stock price. It also makes executives more aware of shareholder' interests, says Sony. The company's move is in response to criticism that the egalitarian remuneration system stifles creativity and discourages strong leadership.

Some corporate consultants believe that a results-oriented approach is needed at a time when companies are suffering from slow earnings growth. But while some of the more progressive companies have started to turn away from the traditional employment system, they are among a minority.

In a culture where harmony within the group is still a preoccupation, corporations are reluctant to implement a wage system which could create friction.

Many companies also cite the lack of internal evaluating methods. And with the majority of stable shareholders remaining silent, the push for productivity has been muted. Most companies have been loathe to break the biggest corporate taboo of announcing redundancies, choosing to shift excess labour to subsidiaries and affiliates, that a liquid labour market is virtually non-existent.

The burst of the economic "bubble" in the early 1990s and the ensuing earnings slump has also taken toll on workers in a different sort of way. The pressures of corporate restructuring are even driving middle-aged men to death, as drastic changes in the corporate environment have increased stress among staff.

Suicides by men between the ages of 40 and 59 totalled 6,296, rising 13.7 per cent in the last five years, according to the National Police Agency.

Although, in the past, the goals of corporations and employees coincided with workers being rewarded for loyalty and hard work by a rise within the hierarchy, today's organisational changes have heightened the sense of betrayal among workers.

For female workers, the changes in the economic climate have proved to be especially harsh. Companies are now halting the hiring of "office ladies" whose role has been mainly secretarial, serving tea and taking phone calls. Japanese companies have traditionally divided roles in the workplace by sex, placing male workers on a "career track" and on the lifetime payroll while giving women lower-ranking jobs.

While some companies have started to open doors to women by accepting them on the career track, the majority of female graduates have been hired as office ladies. However, instead of marrying and leaving the workforce as they would have in the past, these "office ladies" are now choosing to marry later and staying on at their companies. This has become an overhead burden especially at a time when companies are facing declining profits.

Leading corporations, including Mitsubishi, the trading company, have decided to stop hiring "office ladies" and replace them with cheaper temporary staff from agencies.

Sexual harassment has also become a problem in the face a harsher economic outlook. With prospects of finding another job declining due to the sluggish economic recovery, more women are reluctant to "blow the whistle" on their colleagues and superiors over sexual harassment. And since employers' concerns have been superseded by labour problems stemming from the recession, dealing with sexual harassment has been given low priority.

The decline in work for women university graduates has boosted the number of incidents involving sexual harassment during job interviews. The labour ministry recently launched investigations into claims that students have been told come to interviews in mini-skirts, while other job hunters have apparently been refused work due to their physical appearance.

Young people in Tokyo: women in particular can look forward to an increasing range of career opportunities which did not exist a few decades ago – see report on page 9 on wider roles for women as Japanese stereotypes are being dispelled

■ Foreign policy • By William Dawkins

A more robust stand on trade

As a new order begins to take shape in Asia, Japan is shedding its inhibitions

Japan's transition from merchant trader to a nation with wider world interests has not been simple or easy.

Neither is that change complete. And yet the past few years have brought a host of small incremental developments in Japanese foreign policy, which point to a more confident Japan, harder to push around, and motivated by interests that extend well beyond the commercial.

To illustrate the depth of that change, only five years ago, Japan was agonising over a decision to send troops to join United Nations peacekeeping troops in Cambodia. Its critics, mainly in Washington, saw it as a free rider, benefiting from the work of international institutions but making little contribution in return.

Now, one of its diplomats, Mrs Sadako Ogata, is being cited by the US as a candidate for UN secretary general. She is seen, says a senior US state department official, as "eminently qualified" to pursue UN reforms. Mrs Ogata is a sign of the times. In other fields, such as development aid, Japan has shown over the past year that it wishes to add an intellectual contribution to its financial clout.

Japan's attempt to redesign the comfortable cold-war model of foreign policy is part of a profound change of identity. For 40 years until the early 1990s, foreign policy was a simple matter because it barely existed. During that time, Japan followed the US political and security lead. Tokyo's politicians and bureaucrats were free to build economic power, unburdened by the need to assure their own defence. The US was happy to oblige, for it needed Japan to be an economically strong democracy, as a bulwark against the spread of communism in Asia.

At first, the end of the cold war did little to change that situation. But gradually, policy makers on both sides realised that the collapse of the Soviet Union had thrown that cosy interdependence open to renegotiation.

The economic part of the US-Japan relationship was the first to be tested. A tougher Japan was evident in the economic framework talks in 1993, designed to curb the Japanese trade surplus. Those talks, marked by Tokyo's refusal to accept US demands for import targets, were the starting signal for a series of confrontational trade negotiations, leading to a remarkable compromise by the US in last year's car trade dispute, in which Japan gave away almost nothing.

Reactions

Today, the Liberal Democratic Party government under Mr Ryutaro Hashimoto, whose popularity owes much to his tough line in the car talks when trade minister last year, is now holding out against US demands on access to the semiconductor and photo film markets. Most policy makers, apart from some anxious senior officials in the foreign ministry, welcome this more robust trade stance and want to see it continue.

Security and defence was the second and much more sensitive aspect of the US-Japan relationship to be renegotiated. Both sides' defence ministries' concluded in Asian security reviews last year that the end of the cold war had in fact made the region no safer. The threat of a global war between the US and the Soviet Union had given way to a new and less predictable series of problems; a patchwork of potentially very dangerous local Asian disputes and wobbly changes of regime.

Top of Japanese defence planners' list of regional headaches are the transition of power in China and its territorial ambitions for Taiwan and the disputed Spratly islands, the shock waves from North Korea's likely implosion and Russia's political future.

That is why all seemed plain sailing towards an agreement to set aside trade rows and reinforce the defence alliance at a US-Japan summit last year; until, as is so often in foreign policy, a surprise incident intervened.

Last September's rape of a schoolgirl in Okinawa – for which three US servicemen have since been convicted – stirred up the most intense Japanese public criticism of the US military presence in 30 years. At first, politicians on both sides were taken by surprise.

Local anger in Okinawa, the biggest US base in Asia, was as much against the Tokyo government, seen to have exploited the island by placing the lion's share of the of US forces in Japan, as against the US-Japan security treaty. But the tragedy also provoked a wider debate over the desirability of the treaty and its price: 47,000 US troops in Japan at an annual cost to taxpayers of $5.5bn.

In the event, Japanese public opinion swung back in favour of the US alliance, nudged into place by the salutary reminder of Japan's vulnerability provided by last spring's Chinese missile tests across the straits of Taiwan.

Thus, president Bill Clinton and prime minister Hashimoto were able to agree at their April summit on a significant extension of the treaty, under which the US would maintain the number of troops in Japan and the Japanese military would, for the first time, offer logistic help in peacetime. In an important gesture towards Okinawan sensitivities, the US also agreed to close an air base there and move its functions to other US air bases on the island.

The accord went less far than US defence officials would have like. They wanted logistic help in war, for example. But the issue of what role Japan should play in any Asian regional conflict, beyond defending its own territory, remains the subject of a divisive internal debate.

There is an uneasy balance between the desire to make a greater contribution to international security, as argued by a reformers like Mr Ichiro Ozawa, leader of the opposition New Frontier Party, and the need to avoid stirring more unhappy memories of the imperial past among Japan's Asian neighbours, a key concern of the foreign ministry.

A third change in Japan's post-cold war foreign policy has been highlighted over the past year. There has been a growing sense of independence from the US, a sense that Japan has an alternative Asian view of the world to offer. Asia has long been critical for trade reasons, as shown by the 60 per cent of Japan's foreign aid which goes to the region's developing economies, but wider interests have recently come into play.

Asian role

Japan's tentative attempts to play a greater role in Asian can be seen in the role it played as chairman of the Asia-Pacific Economic Co-operation council last year in seeking to bridge US and Asian views in a critical debate on regional integration.

This ambition can be seen in the attitude Japan has taken to Burma, where Japan has resumed aid before western countries – admittedly a policy for which Tokyo has been criticised by the Burmese opposition for continuing to put commercial interests first.

It can also be seen in the vigour with which Japan is seeking to persuade a reluctant US that China should be permitted entry into the World Trade Organisation.

In short, as a new order begins to take shape in Asia, Japan is shedding some past inhibitions. The nation has emerged as a more active player, prepared to set more of its own strategy, with less heed to outsiders.

■ Disaster city slowly rebuilds • By Alice Rawsthorn

Kobe's battle for recovery

Many signs of the earthquake have been erased, but empty lots remain across the city

Glancing around the central square of Sannomiya, the commercial district in the heart of Kobe, it is hard to see why the bustle of office blocks, department stores and building sites should be different from any other prosperous Japanese city.

Yet it is only 18 months since Kobe and the surrounding Hyogo region were devastated by the Great Hanshin-Awaji earthquake, the worst catastrophe to hit Japan since the second world war. More than 6,000 people died, 35,000 were injured and 600,000 buildings were damaged or destroyed including the Kobe newspaper office which once stood opposite the Sogo department store in Sannomiya, and the city hall, now scaled down from an eight-storey building to two floors.

The Hyogo Prefectural Government has since initiated a reconstruction plan to repair the Y10,000bn damage caused by the quake. The most visible signs of the disaster have been erased, but there are still empty lots all over Kobe and more than 40,000 people living in temporary homes. The authorities are desperately trying to balance the need to return the city to normal with the hope that they can use the reconstruction programme to modernise the local economy.

Before the earthquake, Kobe was best known as the home of the first wave of foreigners who settled in Japan in the 19th century. It was also famous as Asia's largest container port and as the location for some of Japan's leading steel mills, ship building plants, consumer electronics factories and sake breweries.

Although the local economy was fairly buoyant before the quake, the long-term outlook was less reassuring as many of Hyogo's industries, notably steel and shipbuilding, were in decline. Its consumer electronics plants faced fierce competition from new producers in lower-cost Asian economies, and even the port was losing trade to rival harbours in Hong Kong, Singapore, Taiwan and South Korea.

"The local authority recognised that it had a problem in the traditional industrial base, before the earthquake," said Mr Satoshi Maekawa, senior research officer at the Daiwa Research Institute in nearby Osaka. "It had a latent intention to make changes, but the earthquake has speeded things up."

After the disaster the first priority was to repair the damage done to Kobe's homes and businesses. Japan's construction companies, including Obayashigumi, which is headquartered in Osaka, shipped teams of workers and equipment into Hyogo to tackle that task. The railway network was repaired within five months and most of the roads are now usable, although the work on the Hanshin expressway, which became the most visible symbol of the tragedy when pictures of its collapsed pillars were emblazoned across the international media, will not be completed until late September. Meanwhile, the journey from Kobe to Osaka takes 90 minutes along local roads, compared with 20 minutes on the expressway.

Many of the schools and hospitals in Hyogo are modern buildings which were sturdy enough to survive the earthquake intact. Other public buildings, including the city hall, were badly damaged, but many have now been repaired, and the chief concern of the local authority is providing permanent housing for the people whose homes were destroyed in the disaster.

Unlike Tokyo, Kobe was not previously prone to earthquakes, so relatively few residents were insured against them. Some people had enough money to rebuild or repair their own homes after the quake, but others did not and have been forced to go into temporary housing. This problem was aggravated by the fact that the most vulnerable buildings were the traditional wooden houses which were largely inhabited by elderly people living on tiny pensions with sparse savings.

Some 42,000 people are still living in cramped temporary housing in the Kobe region and another 150,000 have moved outside the area.

After months of discussion, the Hyogo authorities have finally reached an agreement with the national government whereby the latter will provide 75 per cent of the cost of constructing 38,600 new housing

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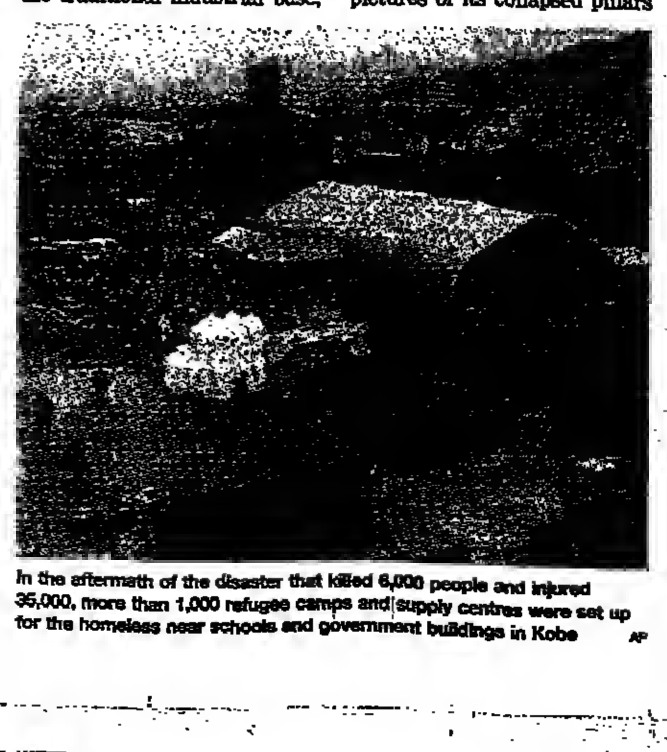


In the aftermath of the disaster that killed 6,000 people and injured 35,000, more than 1,000 refugee camps and supply centres were set up for the homeless near schools and government buildings in Kobe AP

■ **Personality profiles:** movers and shakers in Japan

Hashimoto wins support on overseas initiatives

But his influence in domestic issues is limited, writes Emiko Terazono

Ryutaro Hashimoto, Prime Minister

The darling of Japan's middle-aged housewives, Mr Ryutaro Hashimoto, is the first Liberal Democratic Party prime minister since his party lost its 38-year reign in 1993 and is known as a fearless international trade negotiator.

His ability to take international initiatives in issues such as the US and car exports has won him support from the public and the country's bureaucrats.

Recently he succeeded in obtaining an agreement by the US to give back an air base in Okinawa. Successful negotiations with the US boosted approval rates in the polls.

In domestic affairs, however, his influence seems to be more limited. Parliamentary politics is one of Mr Hashimoto's weaker points.

Mr Seiroku Kajiyama, the chief cabinet secretary has taken on that role of striking tactics with the opposition party. Mr Kajiyama's strong-arm tactics helped the ruling coalition bulldoze its way through the Jusen housing loan debacle. Even in his own party, Mr Hashimoto's inability to forge close relationships with fellow party members is said to hamper his full leadership potential.

Mr Hashimoto's next political hurdle will come later this year when the government will try to obtain parliamentary approval to oblige 3,000 land owners in Okinawa to renew leases – due to expire next May – on land occupied by the US military.

Mr Hashimoto cannot afford to let these leases expire since Okinawa is the largest US base in Asia, as well as being strategically important to the US-Japan security alliance.

Ichiro Ozawa, leader of opposition

Ever since Mr Ichiro Ozawa was elected the leader of Japan's main opposition party at the end of last year, he has frustrated allies and surprised opponents with his lack of political achievements.

Mr Ozawa, who became a self-proclaimed reformer after he left the Liberal Democratic Party in 1993, was long regarded as the shadow *shogun* – a backroom operator and revered 'king-maker' of the Reformist Party.

However, as head of the New Frontier Party, Mr Ozawa has been ineffectual and is said to have become increasingly isolated within his own party. Those who had hoped for a showdown between Mr Ryutaro Hashimoto and Mr Ozawa – both originally from the same faction within the Liberal Democratic Party – have been disappointed.

Mr Ozawa failed to orchestrate a successful attack over the government's liquidation plan for the bankrupt Jusen housing loan companies, and the opposition party resorted to blockading the entrances of the parliamentary committee room to prevent voting.

In spite of Mr Ozawa's reputation as being a strong leader, the opposition party neverthless seems to be in the danger of breaking up.

At a time when the New Frontier Party needs to be preparing for a general election which must be held by July, party members – critical of Mr Ozawa – are threatening to leave.

Mr Ozawa himself has announced the opposition party'a possible support in parliamentary matters and seems to be trying to form an alliance with his old nest, the LDP.

Naoto Kan, health and welfare minister

Mr Naoto Kan, health minister, showed the Japanese public that the country's inscrutable bureaucrats *can*, after all, be controlled. A member of the liberal New Party Sakigake, he managed to uncover information on what lay behind the infection of 1,800 haemophiliacs in Japan with Aids-contaminated blood in the 1980s.

Mr Kan, a 49-year-old former civil rights activist, has redefined the role of cabinet minister, proving that politicians can rule instead of reign.

Although previous health and welfares ministers also questioned the ministry's involvement into the distribution of Aids-contaminatad blood clotting agents in the 1980s, they were met with a wall of silence by ministry officials.

Mr Kan, however, ordered the ministry to set up a special investigation group to unveil the past discussions and decision-making.

The group myeteriously came up with notebooks which had been "lost" over the years. His manoeuvring indicated that bureaucrats will follow orders if a minister gave them a highly specific mission.

The revelations have led to an official apology by the government and pharmaceutical-makers, and a compensation agreement between the state, pharmaceutical companies, and the victims.

The resolution of the HIV debacle has made the enterprising health minister "the man most wanted as prime minister" – and he has now indicated an interest in teaming up with other young liberal politicians to form a new party ahead of the general election.

Masayoshi Son, president of Softbank

Dubbed the "Bill Gates" of Japan, Mr Masayoshi Son, the 38-year-old head of Softbank, a software distribution and publishing company, has recently shaken Japan's media establishment with his venture with Mr Rupert Murdoch of News Corporation.

Mr Son has never been a conventional Japanese businessman. After leaving for the US during his high school years, he developed the world's first 'translation machine' as a student at University of California's Berkely campus and bought a game centre with the $1m he made from selling the rights for the system.

He shook Tokyo's financial community last year by raising funds on the corporate bond market without appointing a trustee bank, where a financial institution guarantees the bond and takes on the paperwork. The trustee bank system, only seen in Japan, has been widely criticised by corporate bond issuers and brokerages as pushing up the issuance cost of banks without having much practical use.

Mr Son may not need the help of the trustee banks, but he certainly listens to the advice of a network of former officials at Nomura Securities and the ministry of finance.

His venture into television with Mr Murdoch is another step into the multimedia arena and follows his purchase of Ziff-Davis, the US publishing company, and his link-up with Yahoo of the US in an Internet joint venture.

Nobuyuki Idei, president of Sony

For some Sony watchers, the appointment last year of Mr Nobuyuki Idei, as of one of Japan's most important companies, came almost out of the blue. However, as president and chief operating officer of Sony, Mr Idei, has managed to lift spirits at the consumer electronics company, which has started to regain its sparkle. He is trying to turn Sony into a company which can identify with a new generation of consumer electronics users whom he dubs the "digital dream kids," and has pledged support for young talent and more research and development in software, networks and information technologies.

Speaking fluent English and French – and speaking his mind – Mr Idei is known for his "un-Japanese" character. While some critics identified him as the protege of Mr Norio Ohga, his predecessor, he has shown that he was ready to push ahead with his own ideas, dispensing with the services of Mr Michael Schulhof, then head of US operations who was said to be close to Mr Ohga.

Mr Idei faces the challenge of changing more than the conventional product lines at Sony. The company, which was regarded as a young maverick company until the 1980s, has become a sprawling bureaucratic organisation, the sort of company from which its founders sought to differ.

Hiroshi Okuda, president of Toyota Motor

Mr Hiroshi Okuda, who was appointed as president of Japan's largest car maker last August, is the first outsider of the founding Toyoda family to take the helm in 28 years.

Mr Okuda took over from Mr Tatsuro Toyoda, who was hospitalised for hypertension. Although members of the founding family are expected to eventually return to head the company, the injection of new blood at the top has proved a large success at Toyota.

While Mr Okuda's appointment has not lead to a significant change in strategy or corporate style, his background in sales has helped boost morale of Toyota's distributors, whose loyalty to the company is said to have been waning under Mr Tatsuro Toyoda, an engineer.

Mr Okuda has taken on a broad range of responsibilities since he joined the company after graduating university, from the supervision of Asian and North American operationsto the management of financial matters. He speaks fluent English and enjoys playing *mah-jong*. He is also known for his candour and humour.

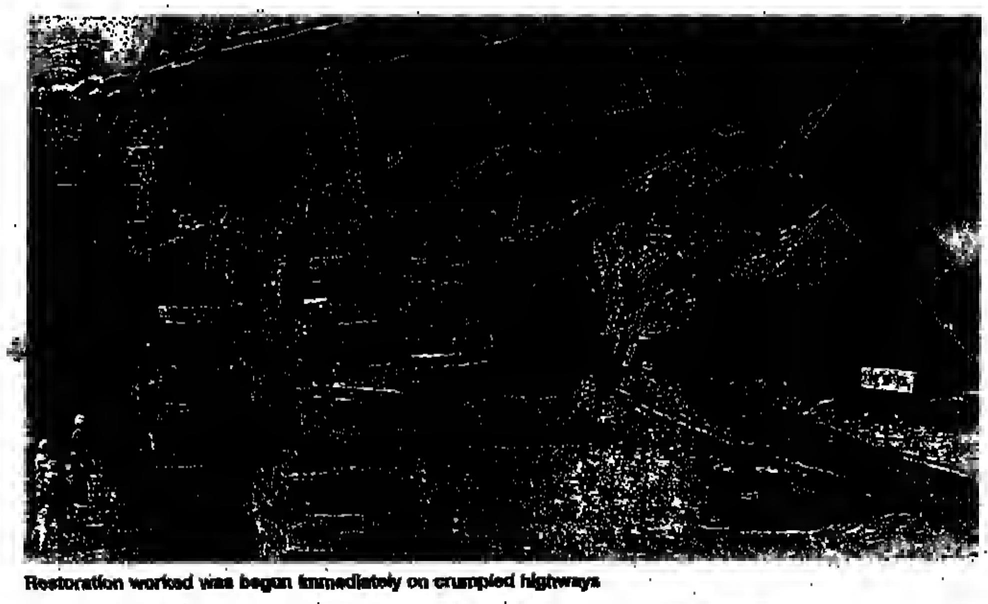
Mr Hashimoto: reputation for being 'a fearless trade negotiator'

Masayoshi Son of Softbank: far from conventional

Ichiro Ozawa, opposition leader: self-proclaimed reformer

Hiroshi Okuda of Toyota Motor: candid and humourous

Nobuyuki Idei of Sony: pledges support for young talent



Restoration worked was began immediately on crumpled highways

Naoto Kan, health minister: he has broken down walls of silence

Disaster city rebuilds

Continued from page 6

units. Another 50,000-plus homes will be built by private sector developers and housing corporations.

Progress is slower in the commercial property sector where, despite the recent pick-up in the Japanese economy, developers are still nervous about investing in new office blocks and factories. Mr Keisuke Shikata, head of planning in the reconstruction division of Hyogo Prefecture, said that construction work was either already scheduled, or under consideration, for just 22 of the 60 commercial buildings destroyed in Sannomiya.

"Many of the larger local companies moved to Osaka after the earthquake and don't plan to come back," he added. "And developers are worried about finding enough tenants to fill the new buildings."

Nonetheless, the Hyogo Prefectural Government is pressing ahead with its plans to use the reconstruction programme as a way of modernising the economy. In the container terminal, for instance, one reason why Kobe had lost business to other Asian ports was because its berths were too small to accommodate huge new vessels. The largest of the old berths were 14m deep, eight new ones are now being built with a depth of 15m, and the smallest of the old berths will not be replaced.

Similarly, the authorities are trying to reshape Hyogo's industrial base by drawing more companies in fast-expanding areas, such as multimedia and advanced electronics. Mr Shikata admits that there is no evidence to suggest that such companies are moving into the region. However, the Ministry of Post and Telecommunications plans to set up a Kobe International Multimedia and Entertainment City, which will includa research and education institutes, to provide a hub for them.

The Hyogo Prefectural Government has mooted other proposals for a new conference centre, an import shopping-centre, an enterprise complex and an enterprise zone on a reclaimed island in Kobe's harbour, but tha region's finances are already severely strained.

■ **Privatisation** • By Alice Rawsthorn

Accident-prone plan

The stock market's recovery has prompted the finance ministry to 'dust down its ideas'

It is scarcely surprising that the Tokyo financial community's reaction to the news that the Japanese government is recommencing its oft-delayed privatisation programme has been far from enthusiastic.

So far, Japan's attempts at privatisation have been, at best, accident-prone. The first of this year's issues is the sale of the shares in Japan Tobacco (JT) which were left unsold after that company's initial public offering two years ago. The next candidate for sale, the JR West railway company, should have gone public last year, but was forced to abandon its plans after the Kobe earthquake.

Other proposed state issues have also gone on ice because of the sluggish state of Japan's stock markets. However, the market'a recovery since last summer's four-year low – coupled with the need to reduce central government debt – has prompted the finance ministry to dust down its privatisation plans. Will its efforts be more successful this time?

"The reason why the government is so keen on privatisation again is concern about budgetary conditions," says Mr Kunji Okue, economist at Dresdner Kleinwort Benson in Tokyo. "The economy has recovered, but only gradually. The equity market haa improved, but it is questionable whether it can swallow so many new issues."

The first test of tha market's capacity will come to a head at the end of this month when the new tranche of JT shares start trading.

Japan Tobacco is the country's only tobacco company and for years was a state-owned monopoly which manufactured its own brands of cigarettes, including Mild Seven and Seven Stars, and controlled the distribution of foreign tobacco products in Japan.

Its monopoly was abolished in 1985 and the company has since tried to expand into other countries and other product sectors, while the government has implemented plans to sell a third of its shares on the stock market.

All of those shares were put up for sale in 1994, but only two thirds were sold. This spring the ministry of finance unveiled proposals to sell the remaining 272,390 shares.

Significantly, the ministry departed from its past policy of fixing the share price after auctioning the stock among domestic institutions, in favour of a book-building exercise, whereby its advisers' recommended a price after consulting prospective investors. Past auctions had been followed by falls in the share price. The ministry also set a precedent by appointing a foreign adviser, Goldman Sachs International, the UK arm of the US investment group, as well as Nomura Securities, one of Japan's most powerful banking groups.

> The first test of the market's capacity will come to a head at the end of this month

The share price that the government and its advisers finally decided upon was Y815,000, a slight discount to JT's market price, which should ensure that the issue yields a total of Y222bn. The final details of the sale were announced in mid-June and the new JT shares will start trading at the end of July.

The next privatisation prospect is JR West, one of the six passenger railway companies created in 1987 when the state split up the old Japanese National Railways (JNR) network. JR West, which had operating revenues of Y874.2bn last year, is the second largest of the six companies and covers a region of western Japan including the busy lines between Tokyo, Osaka and Kobe.

The government has long been anxious to privatise all six passenger railway companies, not least because it is eager to pay off the Y27,600bn debts left by JNR's abolition which were transferred in 1987 to a specially created company, the JNR Settlement Corporation.

Initially the corporation had hoped to pay off part of those debts by selling the land it took over from JNR, but that plan has been impeded by the steep decline in Japanese property prices.

One railway company, JR East, was privatised in 1993 and, even though its issue triggered a dramatic fall in the Tokyo stock market, JR West was due to follow suit in March 1995.

However, the damage and disruption caused by the Kobe earthquake meant that JR West could not meet the financial criteria required to go public and was forced to postpone its flotation plans.

Trading conditions have since improved and JR West filed a formal application to be quoted on the Tokyo and Osaka stock markets in June. It is now preparing for an auction to set its share price in early August and for its shares to start trading in early October.

The proposed auction raises awkward memories of the less successful aspects of past attempts at Japanese privatisation. However, the authorities have struck a cautious note by stressing that it has not yet decided how many of the JNR Settlement Corporation'e 2m shares in JR West will be put up for sale. The final number will be determined by the likely level of demand and some Japanese analysts suspect it could be as few as 500,000.

If the JR West's second stab at privatisation proves successful, other railway companies are expected to follow it on to the stock market.

However, the government's newfound enthusiasm for privatisation also extends to other sectors.

NTT, Japan's domestic telecommunications company, is an obvious contender as a third of its shares are already listed and legislation is already in place for the state to sell another third.

The spotlight may then fall on newcomers to the privatisation arena, possibly on the Japanese post office, which is the world's largest savings institution and a highly controversial stock market candidate.

Japan's banks have lobbied hard for the post office to go public hoping that this would remove the government support and subsidies that enable it to offer high interest rates to savers. But the post office's own employees are firmly set against it, which may raise yet another set of problems for Japan's accident-prone privatisation programme.

■ Organised crime • By Gerard Baker

Moving out of the shadows

Connections with the 'yakuza' have played a big role in Japan's financial problems of the last four years

Organised crime has long been a central feature of Japan's distinctive version of the free market economy. The *yakuza*, tattoo-infested, punch-perm coiffed gangsters, numbering as many as 80,000, are a significant element of the statistically less well-documented parts of the economic system.

In the big cities, Osaka, and Tokyo especially, they have long enjoyed a virtual monopoly over the usual underworld entertainment staples – prostitution, gambling, illicit drinking.

Safely in control of their nether world, the *yakuza* have generally been left unmolested by a police force who have often seen them as useful extra pillars of social stability and order.

As long as they seasoned their less-savoury activities with a sprinkling of "good works" – a bit of assistance for the under-privileged in their neighbourhoods, conspicuous donations to local charities – they could carry on their core businesses in whatever peace their fierce inter-gang rivalry would allow them.

But in the last few years, their search for more sophisticated and lucrative forms of self-expression have begun to bring them out of the shadows of Japanese society.

The process has revealed some distinctly unattractive truths about Japan that the authorities would much rather remained hidden away still – not least because they demonstrate the occasional intimate relationship between criminals and the supposedly respectable business establishment.

Yakuza long ago realised the financial potential buried in Japan's secretive business world. A popular source of earnings for them in the past was corporate blackmail: they would threaten to disrupt shareholders' meetings with uncomfortable revelations about company directors unless they were handsomely paid off. Many supposedly respectable companies were happy to pay up, rather than lose face.

But as with many entrepreneurial Japanese, it was the real estate boom of the late 1980s that set the pulses of the gangsters racing. As land prices rose sharply they sensed an opportunity to break out from their high-risk, low-yield semi-felonious activities. Within a few years they had slotted themselves into a wide range of property market niches, most often with the help of more established enterprises.

The most direct form of *yakuza* property market activity was *ji-age*, a term that means, literally "land-raising". The euphemism referred essentially to bullying tactics employed by *yakuza* at the behest of property developers.

Land is scarce in Japan's big cities, and as the "bubble" of land prices began to inflate the pressure on developers to find new land for building intensified. But the jigsaw puzzle layout of plots of land in urban Japan made the task difficult. Developers had to buy up each parcel of land from sometimes stubborn owners, before they could build something suitably large to endure real profits.

That was where the *yakuza* came in. Companies would hire mobsters to "persuade" the landowners to sell. If threats were not enough, arson or the odd broken limb usually settled the matter to the developer's benefit.

For their efforts, gangsters were well-rewarded – often with an expensive condominium in the property that would be raised just months later. But the developers would pay for the Faustian pact. The *yakuza* were so useful that they became indispensable. Several companies invited gang bosses to join their boards. Their direct methods worked well in a whole range of dealings with recalcitrant customers, bankers or tenants.

But then the bubble burst, and the dynamics of the relationship changed. As land prices fell, property developers fell quickly into the mire. Banks, which had asked few questions about *yakuza* connections when the going was good, now found themselves forced to play by the rules of the criminal underworld.

> 'Mobsters have taken on a new significance in the economy'

Attempts to recover non-performing loans from companies with gangster connections, were not often successful. Several bankers paid dearly for their involvement; most, however, were too scared to press their claims, and loans were written off.

The ever-resourceful gangsters have found new ways to exploit the collapsing market for their own ends. A favourite technique in current vogue involves the *yakuza* in a form of squatting. They identify buildings used as collateral for loans on which interest payments have long since stopped. Banks' attempts to recover the money through a sale of the property suddenly get nowhere – no-one wants to buy a building occupied by men with a penchant for sword-play with parts of their rivals' anatomies. Their various activities in the property market mean the *yakuza* have played a crucial role in the country's financial crisis of the last four years. Raisuke Miyawaki, once a senior policeman, now a private-sector adviser on organised crime, estimates that the *yakuza* are involved in at least a tenth, and possibly a third, of Japan's total Y50,000bn-worth of non-performing loans. As a result, he says, mobsters have taken on new significance in the economy.

"The upshot of these ties is that *yakuza* began to grow out of their inferiority complex that they were members of the underworld. Instead, they began to develop a superiority complex vis-a-vis the country's financial institutions, since they felt they had looked out for these firms during the bubble economy," he says.

Police estimate that a large number of some of the biggest creditors of failed financial institutions in Japan are mob-run or influenced. Several of them even used connections with politicians to help smooth their path in the days of the bubble economy.

The sanguine view is that with the collapse of the bubble, their activities have been forced out into the open, where their lifestyle will not flourish.

Rarely have the Japanese media covered in such daily detail the nefarious antics of organised crime as in the last few months. Prosecutors and the police have said they will redouble their efforts to bring them to justice.

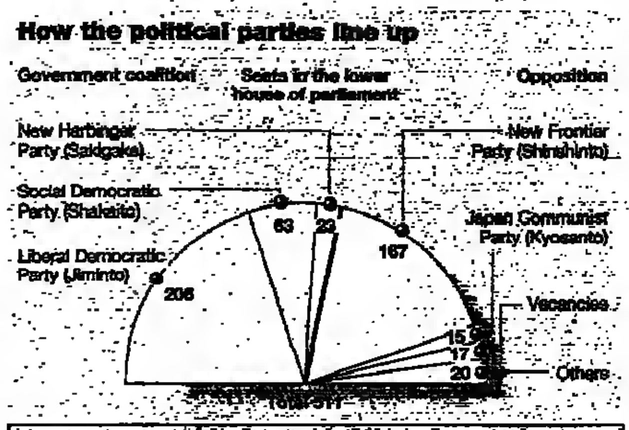
But a less rosy view says that, on the contrary, the events of the last decade have demonstrated just how deeply enmeshed in the mainstream of Japanese life gangsters have become.

Their tendency to pursue their interests through threats and violence gives them great power in a largely peaceable society. Even the optimists do not expect them to retreat back into their underworld.

■ Political scene • By William Dawkins

The circle is complete

The return to power of the Liberal Democratic Party marks an almost comforting return to the natural order of things



The main political parties

Liberal Democratic Party: Formed in 1955, mainly conservative, but includes a young generation keen on political and economic reform. Consolidating its grip. Leader: Mr Ryutaro Hashimoto.

Social Democratic Party: Formed in 1906 as the Japan Socialist Party, but changed its name in 1991. The party is on the point of being broken up and reformed as a centre-left European-style social democratic party, possibly with other like-minded politicians from the coalition and opposition. Leader: Mr Tomiichi Murayama.

New Harbinger Party: Formed in June 1993, this centre-left LDP splinter group is looking for a partner. Its number two, Mr Yukio Hatoyama, is seeking to form a new reform-minded party before the next election, possibly with former members of the SDP. Leader: Mr Masayoshi Takemura.

New Frontier Party: Formed in December 1994, this is a disparate alliance of nine small groups, dominated by former LDP politicians who precipitated the past few years of political fragmentation by leaving the LDP in spring 1993, depriving it of a parliamentary majority, now struggling to assert itself. Leader: Mr Ichiro Ozawa.

Japanese politics has moved full circle, from the partial collapse of the old order to its return to power.

The circle was completed when Mr Ryutaro Hashimoto, leader of the conservative Liberal Democratic Party, became prime minister in January, putting the LDP back on top for the first time since its 38-year-old monopoly in power was broken with the loss of a general election in 1993.

The new government, which believes in fiscal expansion, in taking deregulation at a moderate pace, and is a keen upholder of the security alliance with the US, is popular. And Japan's gathering economic recovery adds to the feelgood factor.

During the first few months of office, Mr Hashimoto won the highest opinion poll ratings – just over 60 per cent – of any LDP prime minister since the legendary Mr Kakuei Tanaka in 1972-1974.

Even after the end of his political honeymoon, Mr Hashimoto now commands a respectable 40 per cent support.

In the next general election, likely late this year or early next, the LDP is widely expected to increase its number of seats in parliament.

The opposition New Frontier Party, a group of LDP rebels, loosely agreed on the need for economic deregulation and a more internationally assertive Japan, is meanwhile trailing with around 10 per cent of the vote, too fragmented to be able to offer a stronger message.

Cynics might be forgiven for thinking that the radical changes that seemed in prospect three years ago have come to nothing.

Then, the old style of backroom government by party faction appeared to have given way to a generation of younger politicians, who promised to create a more open democracy, to push for economic deregulation and put consumers, rather than producers, on top.

The LDP's fall was then seen by its own members – as well as opponents – as a punishment. The electorate was disillusioned with the whims of LDP factions, felt to be remote from their own aspirations. Voters were fed up with a long series of political corruption cases and with an economic status quo that ensured that Japanese prices were the highest of any advanced economy.

In the event, reality was more subtle. There was a ritual element to the LDP's punishment, which made the damage to the old system look greater than it really was. The new order simply failed to dominate.

The first post-LDP government, a coalition of reform-minded LDP defectors under Mr Morihiro Hosokawa, a young former provincial governor, appeared to have a strong mandate for change.

His deregulation programme was liked both by the Japanese – Mr Hosokawa was the most popular prime minister in the country's history – and by foreign governments, which believed that the new Japan would quickly dismantle trade barriers and suck in more foreign imports.

But Mr Hosokawa lasted barely eight months. Allegations of personal financial impropriety, stirred up by former LDP colleagues, caused the aristocratic Mr Hosokawa, a relative novice to national politics, to lose patience and resign. The government coalition limped on for another two months under the likeable but uncharismatic Mr Tsutomu Hata.

The Hata coalition succumbed to a parliamentary coup in June 1994 staged by an extraordinary new alliance, a marriage of convenience of the LDP and its traditional foe, the left wing Social Democratic Party.

Mr Hashimoto still commands 40 per cent poll ratings

The socialists' price for forming a government with the LDP was to have their own leader, a former fishing union official, Mr Tomiichi Murayama, as prime minister.

Power also came at great cost for the socialists. In deference to its larger coalition partner, the SDP had to abandon all its most important policies, such as condemnation of the US-Japan security alliance, its former support for communist North Korea and its resistance to sales tax.

The party's supporters fled, many to the Japan Communist Party, the only left wing group left. It was the need to rebuild his party's broken fortunes that prompted an increasingly exhausted Mr Murayama to hand over power to Mr Hashimoto, after 18 months. The aggressive young LDP star was the obvious candidate; popular for his tough trade stance against the US in last year's car trade talks and blessed with the essential backing of LDP former faction leaders like former prime minister Mr Noboru Takeshita.

While the LDP has been edging its way back to the top over the past few years, the new opposition, a disparate band stretching from centre left to religious right, has attempted to put together a single party organisation capable of challenging the government. The result has, to date, been poor.

The remnants of the Hata and Hosokawa coalitions, nine small parties, got together in late 1994, amid a great publicity fanfare, to form the opposition NFP. But the new party has ever since been torn by internal disputes between three factions; those loyal to Mr Ichiro Ozawa, the party's strategic mastermind, whose robust personal style is criticised as un-Japanese; followers of Mr Hata and Mr Hosokawa; and allies of the Komeito clean government party, which is close to a powerful Buddhist group called Soka Gakkai.

These rivalries have paralysed the opposition's ability to make policy. It is seen by critics as no more than a fragmented group of former LDP politicians, whose ideas are indistinct from the ruling party. The logical consequence, seen by political observers as likely, would be for some senior members of the opposition to rejoin the LDP after the next election.

If so, that would bring modern Japanese politics more or less back to where it started in 1955, when the LDP was formed as an alliance of two conservative group. And yet, at the same time, there have been two kinds of real change over the past few years:

☐ First, parliament managed to agree in late 1994 on a new electoral system for the lower house of parliament, designed to encourage politicians to woo voters with votes, rather than the cash handouts and public works projects of traditional constituency electioneering.

The aim of the new system, to be tested for the first time at the next general election, is to rebuild low public confidence in politicians.

The original plan was much watered down in the nearly five years required to achieve agreement from understandably reluctant members of parliament, fearful of losing their jobs – and there is a risk that it could be further diluted before the election.

But the new system, as it now stands, does tip the balance away from the old regime, in which large districts would provide seats for up to six candidates, some of which would come from the same party.

The lower house is to be reduced, at the next election, from 511 to 500 seats, of which 200 will be chosen by proportional representation and 300 by direct vote in a single-seat constituency.

Under the old rules, a candidate could win a seat with as little as 10 per cent of a multi-seat constituency vote; now he will have to win at least twice that proportion of votes.

☐ The second change is the emergence of an increasingly vocal young urban electorate, keen on deregulation and a better deal for consumers.

These new voters are impatient with the political establishment, as shown last year, when two outsiders, a former sitcom actor and an ex-comedian were elected as governors of Tokyo and Osaka, the top jobs in local politics.

In the run-up to the next election, politicians on all sides will be fighting to attract that protest vote. That, in itself is a change from the older order, when the secret of getting in to government was to cultivate rice farmers.

■ Trading losses • By William Dawkins

Fears over risk management

Executives are worried that unexploded financial bombs could be laying undetected in Japanese companies

FINANCIAL BLUNDERS

Company name	Sector	Loss, Ybn	Investment area	Year
Sumitomo Corp. Futures	General trader	196	Copper	1996
Daiwa Bank	Banking	110	US bonds	1995
Nippon Sanso	Oxygen	11.9	Currency derivatives	1995
Kashima Oil	Oil	152.5	Foreign exchange	1994
Tokyo Securities	Securities	32	US bond options	1994
Showa Shell	Oil	165.3	Foreign exchange	1993
Nippon Steel Chemicals	Chemicals	13.9	Foreign exchange	1993
Dai-Ichi Kangyo Bank	Bank	3	Foreign exchange	1991

* Source: FT Tokyo statistics

Japan's latest corporate catastrophe, the $1.8bn copper trading loss in June at Sumitomo Corporation, one of its most venerable trading companies, exposes wider weaknesses in corporate controls. That, at least, is the belief of a senior executive at a Japanese securities group, who argue that the loss – by one of the most conservatively managed of the country's top companies – illustrates a general deficiency in Japanese risk management.

Certainly, Japan has notched up a significant roll-call of financial catastrophes in recent years. They include Daiwa Bank's Y110bn loss on US treasury bonds last year, a Y152bn foreign exchange loss by Kashima Oil in 1994 and Showa Shell's Y165bn foreign exchange loss in 1993, not to mention the thousands of billion of yen of dud domestic property loans now being written off by the banks.

One factor in Sumitomo's loss was the culture of personal trust, ironically part of the team ethic that makes corporate Japan so strong, and very deeply rooted in this 400 year group, once a copper refiner in early 17th century Kyoto. Trust in this case was vested in Mr Yasuo Hamanaka, 48, given sole charge, over the past 10 years, of the world's largest copper dealing operation.

His losses may have been covered up for a while by senior managers, as allegedly happened in the case of Mr Toshihide Iguchi, Daiwa's former New York bond dealer. Merrill Lynch, the US securities house which handled some of Sumitomo's copper accounts, maintains the payments were properly authorised. The group denies a cover-up. Even so, metal traders in Tokyo assume that the faith of Mr Hamanaka's managers

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■ Wider roles for women • By Michiyo Nakamoto

Stereotypes being dispelled

Japanese women seek an increasing range of opportunities which did not exist a few decades ago

When Atsuko Toyama joined the Ministry of Education in 1962, she was one of just three women accepted by the ministry as career bureaucrats.

Japanese women have come a long way in the past 30 years. In 1993, Ms Takako Doi became the first female speaker of the Lower House and today there are 40 women in the education ministry who are on the career track.

Women are active in just about every walk of life and have made a distinct mark in many fields from domestic politics to international diplomacy and private business.

Perhaps the most internationally-renowned and respected Japanese woman today is Sadako Ogata, UN High Commissioner for Refugees.

Ogata has been described by Nicholas Burns, US State Department spokesperson, as one of the most capable public officials in the world and a strong candidate to become the next UN secretary general.

But what strikes most people when they meet Ogata is her smallness, her open nature and her charm.

Born in 1927 in Tokyo, Ogata, whose father and grandfather were both diplomats, spent a good part of her childhood years abroad, in the US and China.

After graduating from the University of the Sacred Heart in Tokyo, she studied international relations at Georgetown University and received a master's degree in political science from the University of California at Berkeley.

Although she has a high profile role as top UN official responsible for refugees that had previously been the reserve of the white male establishment, Ogata professes never to have sought the job.

Yet it is clear from her courage in risking danger to go into the field, her willingness to expose herself to criticism by adopting unprecedented measures and the sheer energy she brings to the job that Ogata is totally dedicated to her mission of helping the tens of millions of refugees throughout the world who depend on the UNHCR.

Her reputation is formidable, as a strong leader, a thinker and a humanist who has restored morale at the UNHCR and made it one of the most open agencies of the UN. At the same time, although Ogata has had to leave her family behind in Japan, her friends know her as a dedicated mother and wife.

Toyama at the Ministry of Education is another diplomat who has succeeded in achieving the difficult task of the balancing the requirements of career and family. Although she is more than ten years younger than Ogata, the soft-spoken Toyama who has a gentle but firm manner, remembers her parents' dictum that she should raise a family as well as pursue a career to contribute to the good of society.

She has succeeded in achieving both objectives her parents set her. Having risen through the ministry's ranks to become commissioner of the Cultural Affairs Agency, Toyama has been named Japanese ambassador to Turkey, a post she will take up next month. She is the sixth female ambassador in Japanese history.

It is perhaps fair to say that Japanese women have to work harder than most men not only in order to win recognition in male-dominated organisations but also to dispel stereotypes about what is expected of a woman or how she is likely to behave.

Toyama notes that her appointment as a career bureaucrat also forced her male colleagues in the ministry to deal with a new and unfamiliar situation. "I came up against many difficulties that men would not have experienced," she recalls. But she did not allow the expectations those around her might have had of her as a woman, to get in the way of her work. "I changed my way of thinking. Rather than merely worry about what people thought of *me*, or how they viewed me, I decided to concentrate on what I could do for the job – and for others," she says.

But public office, and the academic world where Ogata spent her early working years as a professor at Japan's International Christian University, have generally been more open to women than the business world where few Japanese women have won recognition.

Women in Japan have been able to pursue successful careers in business mainly as entrepreneurs or in professions such as fashion design where individual creativity is the key determinant of success.

Rei Kawakubo, who has built Comme des Garcons into a $100m fashion business, became the first Japanese to win the prestigious title of best designer from the French Journal de Textile in 1987.

Noted for a rigorous attention to detail and her love affair with black, Kawakubo, 54, has won plaudits from many corners as one of the most innovative forces in the fashion industry. She pioneered such design elements as asymmetric silhouettes and double collars.

Unlike many fashion designers among even the more successful names in Paris, who keep an eye out for the colour or cut of the season, Kawakubo is not one to concern herself with the latest trends. Instead, she sees fashion as a medium for innovation and self expression.

"That, I believe is why Kawakubo is so widely respected," says an editor of a popular fashion magazine in Tokyo.

Born in Tokyo just before the end of the war, Kawakubo, whose father was an academic at one of Japan's most prestigious private universities, studied fine art before going into advertising.

She opened Comme des Garcons in 1973, nearly a decade after the Olympics came to Tokyo and at a time when Japanese consumers were enjoying the fruits of their country's growing economic success.

More than two decades later, Kawakubo does not fail to surprise and delight her audience with innovative creations. Her recent departure from black to colour – she has not used Comme des Garcon's trademark black in her past few collections – shows Kawakubo breaking away from a trend she herself created, in further pursuit of innovation.

The achievements of women such as Ogata, Toyama and Kawakubo, have inspired younger Japanese women to seek an increasing range of opportunities which did not exist just decades ago.

Toyama, who acknowledges there is a pressing need to open up more opportunities to women and make it easier for them to balance the demands of a career with those of a family, is nevertheless hopeful about the future for women in Japan.

"In today's Japan, young women are much more energetic and unique than men. Society is changing, men are changing, too," she believes.

Certainly, the traditional view that an intelligent, ambitious woman does not make a good wife, may be less popular these days, particularly after the marriage of Princess Masako, a Harvard graduate and ex-foreign ministry bureaucrat, to the Crown Prince.

But from the point of view of many young hopeful Japanese women, change is clearly not coming fast enough. Each year, more than 500 women sign up with Pasona, an employment consultancy, in search of work in Hong Kong, where greater job mobility and a more results-oriented employment system is believed by many to offer better chances for female advancement.

■ **Football** • By Emiko Terazono

Row over World Cup plans

Japan and South Korea will co-host the next world tournament finals in 2002

Many Japanese politicians have been relieved by the recent decision by FIFA, the international football association, to appoint both Japan and South Korea as co-hosts for the 2002 World Cup football finals.

Jitters among Japan's political community had preceded last month's FIFA decision over who will host the 2002 games. The rivalry between Japan and South Korea had been intensifying, with the Korean government expressing full support for its nation's cause. World Cup fever took over Korea just before the decision was made, and Japanese politicians had expressed concern about a potentially huge outcry in Korea if Japan was appointed to host the tournament.

The co-hosting decision has hence been welcomed by politicians as an opportunity for healing old wounds which stem from Japan's colonial rule of the Korean peninsula between 1910 and 1945 and a chance for both countries to work together in hosting one of the largest international sporting events.

The decision provided a recent excuse for heads of both countries to hold a meeting to start preparations for the tournament. Although Mr Kim Young Sam, the Korean president, and Mr Ryutaro Hashimoto, Japan's prime minister, seem to have hardly discussed football, the recent meeting gave both sides a forum for rebuilding diplomatic relations which had soured over the sovereignty of an islet and a way of helping to resolve long-held anger over the way Japan once forced Korean women into sexual slavery as "comfort women" for the Japanese army during World War Two.

Now, in sharp contrast to Japanese politicians, the country's football officials have taken FIFA's co-hosting decision as total defeat. Their disappointment was apparent during the press announcement in Zurich of the association's decision where Mr Ken Naganuma – head of Japan's bidding committee – looked as if he was going to burst into tears.

Prior to the decision, Korean government officials had privately suggested to Japanese counterparts a possible co-hosting. Japan's nationalistic press had called co-hosting the "devil's whisper", regarding the scheme as a ploy by South Korean football delegates who might be seeking a "safety net" in the event that the Japanese won.

Now that the FIFA decision has been announced, critics of the Japanese bidding team accused officials of ignorance of the politics within FIFA: co-hosting was seen as a defeat for Mr Joao Havalange, the association's president and general secretary, who had supported Japan its bid.

> Politicians and football officials clash over FIFA's decision on co-hosting World Cup

The media's wrath aside, a partial hosting is better than nothing for Japan. The popularity of country's J-League, the professional football league which became a national obsession when it was launched in 1993, is now running out of steam. Attendance at its games are faltering as are sales of J-League retail products. Its TV ratings have also fallen.

Furthermore, attendances at stadiums around the country have been sliding to record lows. The new league had appealed to the young generation which had been looking for alternatives to professional baseball, a sport they regarded as slow and lacking in colourful stars. The J-League, it was believed, would provide fans with big sporting personalities and exciting matches. But the early appeal has worn-off, partly due to the failure of the Japanese national team to make the 1994 World Cup Games in the US. The Japanese team suffered a crushing goal in the last few seconds of the qualifying games against Iraq, thus losing its place in the World Cup tournament.

And while the Japanese team has just managed to qualify for this year's Olympics, a victory against other teams is not widely expected. A humiliating spate of defeats could also cast a long shadow over Japan's football business.

When the league was launched, tickets to football games were hard to come by, with those for the stronger teams almost impossible to buy. Now, supporters are filling only about half of the stadiums with the weaker teams

Continued on next page

Inquiry into latest financial upsets

Continued from previous page

made things worse by allowing him to pile up losses.

Whether or not Mr Hamanaka really was acting alone, the first evidence of the official inquiry by six regulators in the three countries involved, Japan, the UK and the US, suggests that the group was especially vulnerable.

Looking beyond Sumitomo, common threads are discernible in the recent run of financial blunders. Misplaced trust in the rise in asset prices, a hangover from the bubble days of the 1980s, is one such thread, suggests Mr Akio Mikuni, president of Mikuni Credit Rating, the only independent Japanese credit rating company.

Another common element may be that Japanese companies expect less of a hammering from their main shareholders when they make a blunder. Those shareholders are often their own banks, suppliers, or even members of the same *keiretsu* corporate family. Business relations, as much as earnings per share, are these shareholders' priority – and they are unwilling to let blunderers collapse or be taken over. This is especially true of Sumitomo, whose largest shareholders are six *keiretsu* cousins, holding 24 per cent of the equity.

Japanese trading companies pose a specific risk management headache. They are uniquely diversified, both by geography and sector, and have become more so over the past decade as they seek to bolster their notoriously low profits by expanding beyond their original export import businesses into a bewildering range of ventures from satellite television to power generation.

Sumitomo, whose corporate motto is "global mind, global reach", was the world's fourth biggest company by sales in 1994, and yet merely 408th in profits. To try to redress that imbalance, it has built up interests in mobile telephones, industrial parks, textiles, food, chemicals, oil, steel and drug retailing among others.

The finance ministry has the widest regulatory remit of any government body, yet its official are relieved to find this is the one financial upset for which they have no formal responsibility. That leaves the Bank of Japan, which has opened its own inquiry, but only into the risk, which it believes to be insignificant, that financial institutions doing business with Sumitomo might be harmed by the loss.

All this suggests that more unexploded financial bombs could be lying, undetected, in other Japanese companies. Fragmented financial regulation, naive faith in individuals and asset prices and weak shareholder pressure all suggest that it could happen again.

Quite a few Japanese company presidents may be nervously scanning internal audits over the next few months, wondering what grim surprises are concealed in their dealing rooms and treasury departments.

■ **Contemporary art** • By Alice Rawsthorn

Avant garde tradition

New venue features the work of influential Japanese artists, such as Jiro Yoshihara and Yoshishige Saito

Any art buff visiting Tokyo has bitherto had to race around the private art galleries to piece together a picture of the Japanese modern art scene, now they can bead straight for the oew Museum of Contemporary Art.

The museum, which opened last summer in a glacial building designed by the architects, Takahiko Yanagisawa and Kisaburo Kawakami, lies oo barren strip of land beside tbe waterfroot at Kiba Park in eastero Tokyo. It combioes examples of post-war Japanese painting and sculpture with works by western artists in a permanent collection and temporary exhibitions.

Opportunity

Arguably the museum's chief attraction, particularly to a foreign visitor, is the opportunity to see the work of influential Japanese artists, such as Jiro Yoshihara and Yoshisbige Saito, who rarely exhibit in the West.

Japan has always been a strong *avant garde* tradition, particularly Tokyo, wbere the pre-war art scene had the decadeot flavour of 1920s Berlin and 1930s Paris, but until receotly cootemporary art was not taken seriously outside that small bohemian circle.

This is partly because Japanese art historians have tended to coocentrate on the art executed before the Meiji era in the late 19th century, when the country embraced Western industrial values, and hava made little attempt to interpret contemporary developments.

As a result, Japan's modern artists have made little impact in the west, despite the fact that architects such as Tadao Ando and Arata Isozsaki are lauded for their ability to infuse modernist forms with a Japanese spirit, as are designers from Shiro Kuramata, to Rei Kawakubo of Comme des Garçons. Probably the best-known Japanese artist internationally is Yoko Ono, who was part of the 1960s Tokyo *avant garde*, bnt that is largely because she married the pop star, John Lennon.

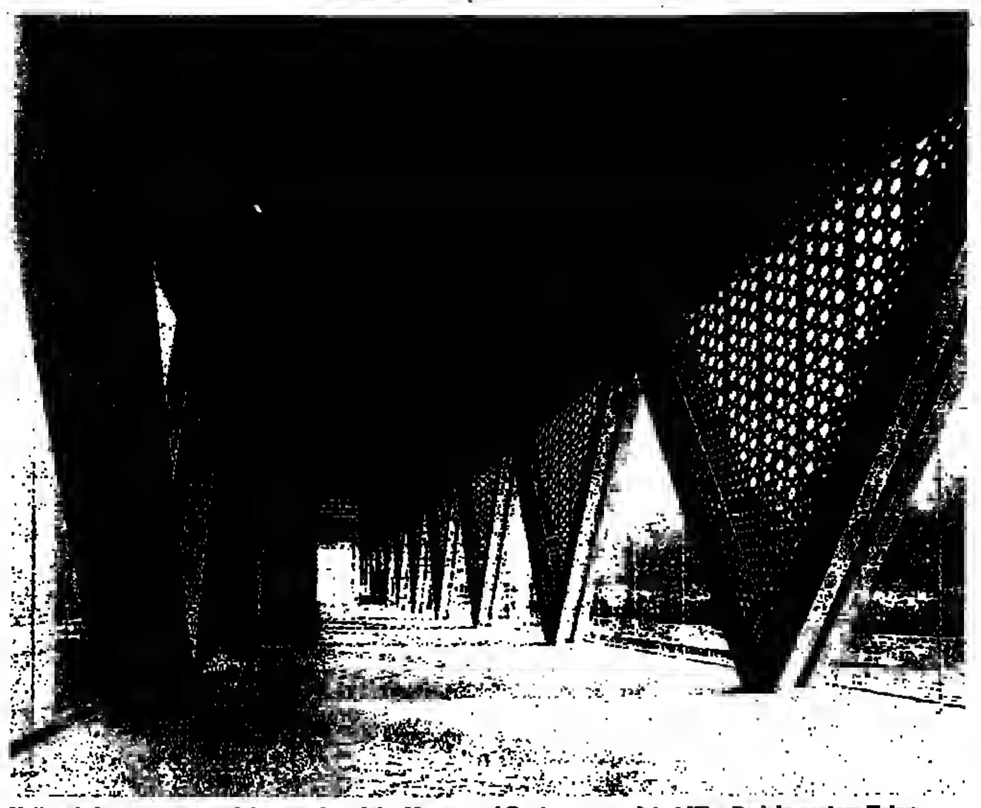
One of the first attempts to stimulate more serious consideration of post-war art was a series of exhibitions on the Japanese *avant garde* of the 1950s, 1960s and 1970s staged at the Tokyo Metropolitan Art Museum in Ueno Park during the 1980s. However, that venue was too small to show more ambitious presentations and the new museum has taken over the 3,000 works in its permanent collection and acquired 500 other pieces of its own.

Assets

It now shows 150 pieces from that permaneot collectioo alongside temporary exhibitions, which this year include shows devoted to the work of the painter, David Hockney, and photographer, Cindy Sherman, as well as modern architecture and urban theory.

Another asset of the new museum is the selection of contemporary Western art taken from the permanent collection. Many of these works were receotly acquired and the Yen's strength has enabled the curators to add beautiful pieces from contemporary figures such as Gerhard Richter and Anselm Kiefer, to those of the modern masters, Mark Rothko and Ellsworth Kelly.

The Museum of Contemporary Art is open Tuesday to Sunday at 4-1-1 Miyoshi, Koto-tu, Tokyo. Tel: (813) 5245 4111.



National showcase: part of the exterior of the Museum of Contemporary Art at Kiba Park in eastern Tokyo. Apart from the work of Japanese artists, the museum also features a selection of western contemporary art

Dilemma over World Cup

Continued from previous page

suffering severely. Although tbe J-League refutes claims that the league is going steadily downhill, it describes the initial hype over the football league as "over-done" – with the result that current popularity is inevitably coming down to more normal levels. Nevertheless, today's oumbers clearly indicate faltering popularity. Sales of paraphernalia, once worth Y30bn in 1993, are falling by a third.

Working groups in Japan, Korea and FIFA are now trying to solve technical difficulties which will arise from co-hosting. Choosing the venues for the games will be one decision which is likely to cause anxiety among the 15 Japanese and 16 Korean municipal candidates. Japan's football officials will have a hard time selecting among the 15, since municipal governments have invested taxpayers' money in building stadiums and have also cootributed to the bidding campaign.

Concern

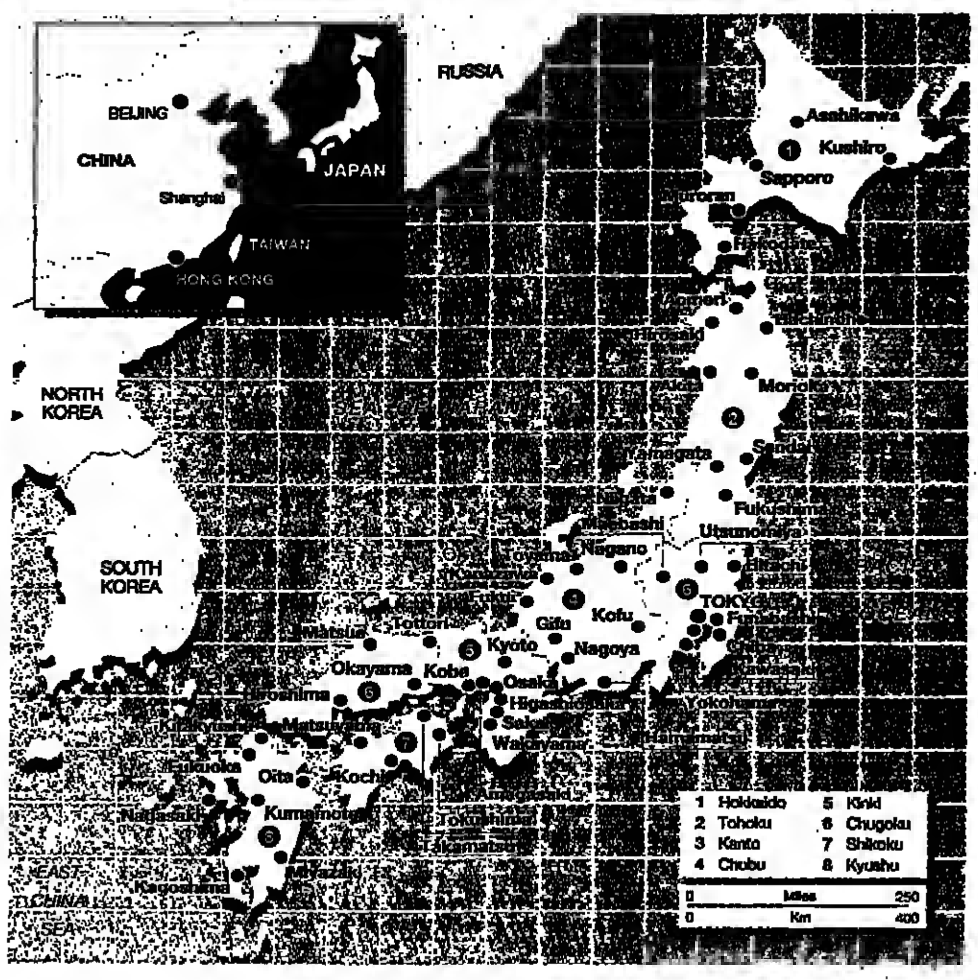
Other problems include deciding where to hold the final match, the expected disparities between admission and other fees between Japan and Korea, and what to do with visas for the fans.

Mr Shoko Kajiwara, general manager of Japan's World Cup bidding committee, recently expressed concero over how some Koreans would react at seeing information signs in Japanese – which are banned in Korea.

A trickier question is whether the Emperor of Japan will participate in the event if the opening ceremony is held in South Korea. In the past, official visits by the Japanese emperor and empress have been cootemplated but subsequently cancelled by the Imperial Household Agency, due to fears of angry outcries among the Koreans.

In spite of the various World Cup difficulties, one consolation may be that the co-hosts of the tournament will automatically receive the right to play in the 2002 tournament.

This fact will exempt both countries from having to play in the qualifying matches – and may be the only way that Japan gets to play in the World Cup finals.



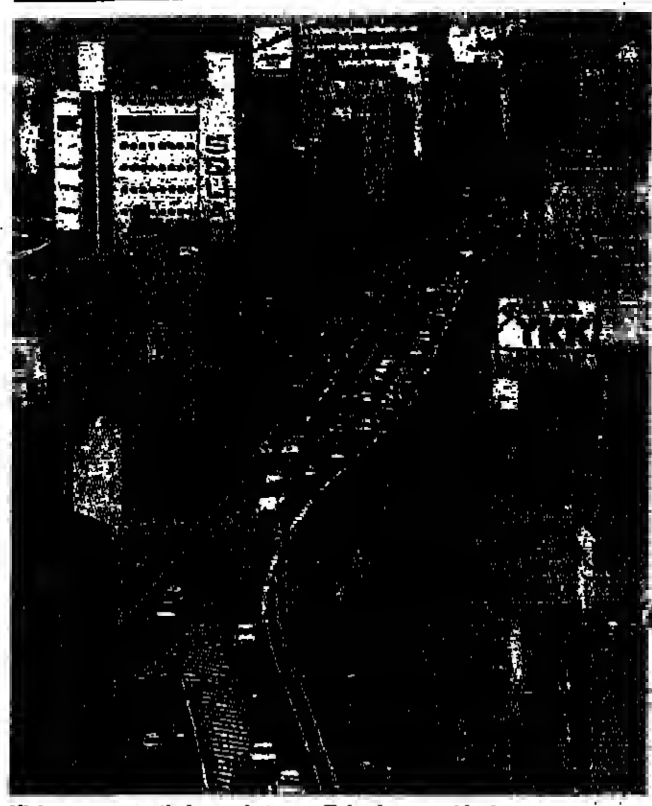
KEY FACTS ON JAPAN

Area	377,800 sq km
Population	126 million
Head of state	Emperor Akihito
Currency	Yen (Y)
Average exchange rate	1995 $1=Y 94.02
	1995¹ $1=Y 106.90

THE ECONOMY	1995	1996²
Total GDP ($bn)	5,114	4,707
Real GDP growth (%)	0.9	1.7
GDP per capita ($)	40,715	37,357
Annual change in:		
Consumer prices (%)	-0.1	0.2
Indus'l production (%)	3.2	3.0
Household disposable inc.(%)	2.4	2.0
Unemployment (%)	3.2	3.3
Reserves minus gold ($bn)	183.3	n/a
Money stock (an'l. % change)³	3.3	4.5
Stock market index⁴ (%)	0.74	9.49¹
Current acct. balance (% GDP)	2.2	1.8
Current account balance ($bn)	110.4	85.4
Exports ($bn)	427.3	438.1
Imports ($bn)	-292.5	-332.4
Trade balance ($bn)	134.8	105.7

Main trading partners (1995, %)⁵	Exports	Imports
United States	27.3	22.4
South Korea	7.1	5.2
Taiwan	6.5	4.3
Hong Kong	6.3	n/a
Singapore	5.2	n/a
China	5.0	10.7

(1) Year to date. (2) Forecast unless otherwise indicated. (3) M2 + C.D.'s. (4) Growth over period in Nikkei 225. (5) Share of world trade; see also economic data charts on page two of this survey
Sources: FT data, Economist Intelligence Unit



Highways weave their way between Tokyo's tower blocks Glynn Owen

RECRUITMENT

JOBS: Employers are paying more attention to domestic lives

Happiness starts at home

Some 27 years ago when Fernando Bartolomé, professor of management at the Instituto de Empresa business school in Madrid, began studying the way that executives balanced their professional and private lives, the prevailing attitude among companies and employees was that the two were not – or should not be – related. What an executive did outside his work – and it almost always was "his" – was his business and nothing to do with his employer.

Today that view is changing as the dividing line between private life and working life becomes blurred. Computer technology, for example, enables work that could once have been completed only in an office to be done at home.

While the executive is still usually male, a big difference is that his wife or partner may be pursuing a separate career. The emergence of women in virtually every area of work is continuing to have an impact on employment policies. Multi-national companies have been made sharply aware that the domestic arrangements of an employee, male or female, can be vital to the success of a career move such as a foreign assignment.

Bartolomé does not believe that family-friendly employment practices have emerged as some sort of philanthropic gesture by employers. He thinks they have much more to do with the bottom line. The potential loss of several thousand pounds because of the failure of an individual to settle into a foreign assignment is a powerful incentive for management to take an interest in the personal lives of staff.

The recognition of such costs, said Bartolomé, speaking at a Royal Society of Arts seminar in London last week, has led to widespread adoption of the once rare "look-see" visit for a partner ahead of a foreign posting.

When Bartolomé began his research there were fewer conflicts involving working partners, but their attitudes towards domestic responsibilities appear to have changed *surprisingly little* as he has updated his work over the years.

If the "new man" does exist he has not emerged in Bartolomé's studies. Men think that women should devote a bigger proportion of parental time to the children. The average male in Bartolomé's surveys thought he should be looking after a third of the childcare responsibilities for the under-fives. The proportion of time that men said they would make available for fatherly responsibility increased as the children got older.

"Executives are much more interested in children when they can play tennis with them, than when their children are little shit-making machines," he said. "At that age it is very tempting to delegate the job to the other partner in your relationship."

In spite of women's increasing involvement in paid work, he found that they gave very similar estimates when they were asked the same questions. "It means that, if these beliefs are very culturally rooted in individuals, they are going to change very, very slowly," he said.

It was not reasonable, he said, for men to argue that they spend too much time at work. When he examined how much time executives were spending at their jobs it worked out at little over half their waking hours. He concluded that executives were unable to use the alibi of work to justify their lack of investment in their private lives. The reason that men devote little time to their families, he suggested, had much more to do with selfishness and unwillingness to spend time with their children.

Bartolomé's research included studies into the events that cause work-related worries to spill over into private life. He found three main causes. The first was moving employees to new locations. He found, from talking to multinational executives, that it takes up to two years for them to feel comfortable coping with the demands of a new foreign job. This, he said, was sometimes the point at which their employers chose to move them on.

Another reason for work problems spilling over was "lack of fit" in a job with new responsibilities; it takes time before you feel that you can do the job, enjoy it and take pride in it. This usually occurs in the first year after someone in a technical job is promoted to a managerial position.

The final cause was career disappointment among those who realise that they have gone as high as they are going to get in their professional lives. Some of these people compensate by expanding their out-of-work interests, many of which begin to resemble alternative jobs.

These may be the people who are beginning to do what Bartolomé urged all individuals to do – take more responsibility for managing their own careers. His broader studies suggest that managing lives and families is equally important. Perhaps we are entering the age of the holistic approach to life and work.

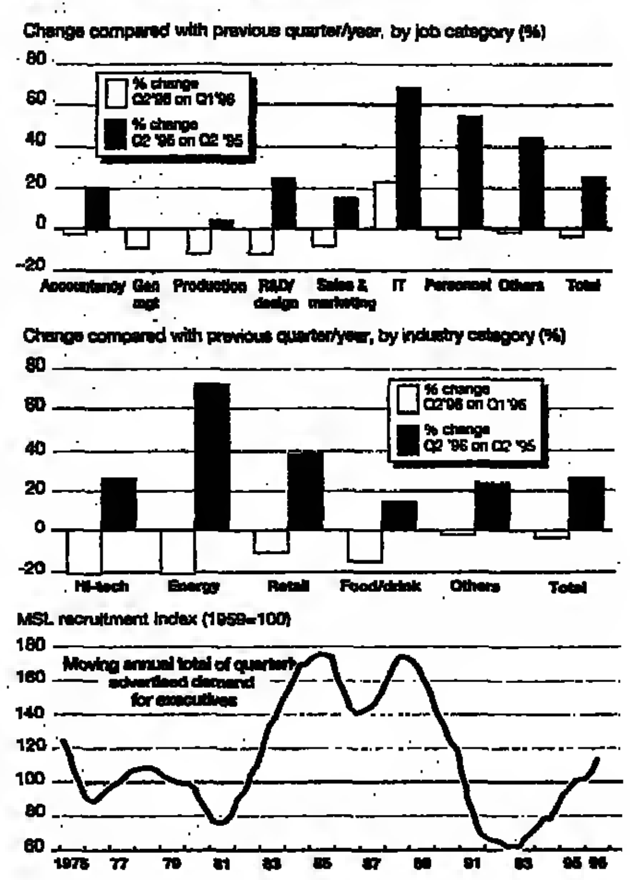
● *The continuing job-cutting* programmes among many employers, headlined in countless newspaper reports, present something of a paradox in the current economy because recruitment activity among the ranks of senior executives continues to suggest sustained business growth.

According to the latest quarterly index of advertised demand for executives compiled by MSL, the recruitment and human resource group, recruitment demand in the senior executive market has risen by 26 per cent on the same period in 1995.

The moving annual total, published here, has climbed consistently since its last downward movement in 1992, suggesting sustained growth and confidence among UK businesses. Gary Long, MSL Group chairman, says: "Business strategies are increasingly more concerned with growth and development than with survival and it is our expectation that the second half of *1996 will see a continuation in* the upturn in recruitment advertising."

Richard Donkin

MSL recruitment index



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- Contribute to the successful performance of the team, planning and implementing business development strategies and giving input to broader commercial decisions in support of the strategic direction of the Bank.

THE QUALIFICATIONS

- Graduate, with at least 5 years' experience in business development and account management gained in a blue-chip international securities business, developing and maintaining high level contacts in banks and financial institutions.
- Proven relationship and business development skills with a strong entrepreneurial spirit. Knowledge and exposure to clearing and settlement operations as well as credit and collateral management. Excellent communicator and presenter, able to win respect and credibility at board level.
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THE ROLE

- Work closely with senior executives throughout the Group to gain a thorough understanding of the business and its strategy, developing insights into the commercial, technological and political factors that drive the business.
- Collect, analyse and store financial information about the performance of Group companies and competitors, promoting a clear understanding of the underlying strengths of the business and its future plans.
- Co-ordinate the presentation of reports and announcements for the investor community and liaise with financial analysts through regular visits and events.

THE QUALIFICATIONS

- Highly numerate graduate, aged mid 20s to early 30s, with professional accounting qualification or MBA. Background in financial analysis gained in a commercial bank, strategic consultancy, the accounting profession or in the investor relations department of a blue-chip multinational.
- Deep understanding of financial statements and annual reports and experience of dealing with the financial community. Computer literate with well-developed analytical skills and a disciplined, commercial approach.
- Excellent interpersonal and communications skills, with the confidence and maturity to build relationships at all levels both within the Group and outside. Energetic self starter comfortable working with decision makers in a multi-cultural environment.

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- Responsible for compilation of economic reports addressing sovereign, industrial sectional and demographic analyses and forecasts with a particular focus upon comparative analyses within the banking and financial services sector.
- Editorial responsibility for the Bank's Economic Review and related publications addressing issues of national or regional economic significance.
- Significant participation in the preparation of overall group budget and business plan.
- Accountable for the leadership and direction of the multi-disciplinary team comprising the Economics and Planning Department within the Bank.
- Providing a pivotal input to business, product and corporate development projects.

The Qualifications

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- Exposure to the energy sectors would be advantageous.
- Mature man-management skills with an emphasis upon providing leadership and expertise in a multi-cultural environment.

This important position requires a high quality banking professional with the ability to influence at all levels working in a multi-cultural environment. Knowledge of Arabic and experience in the Gulf are deemed essential.

This position offers an attractive salary, generous expatriate benefits and performance bonus in a tax-free rapidly expanding Gulf environment.

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Box A5638, Financial Times, One Southwark Bridge, London SE1 9HL.

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5 years' banking experience - Euro note /Eurobond documentation, syndication, warrant sales. Management ad accounting experience. Urgently seeking challenging, rewarding opportunity with progressive bank or securities house.
Write to box A5641, Financial Times, One Southwark Bridge, London SE1 9HL.

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Citibank, a world class provider of securities services, seeks an ambitious Product Manager to join its Funds Administration team, based in London.

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- Product development, primarily on the fund accounting side.
- Specialist sales support.
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- Financial analysis and business planning.

The Candidate

- Qualified ACA with a minimum four years' post qualification experience and a background in funds administration.
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As a Ghanaian head of an established financial institution, you will ensure that the tactical and strategic plans of our client are achieved. Assisted by a team of dynamic and competent managers, the successful candidate will manage and take full responsibility for the day to day running of the organisation.

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Write or fax in confidence enclosing your current CV **including contact telephone numbers** by the 16th of August, 1996 to Ms. M. Nanka-Bruce, KPMG Management Consulting, Second Floor, Mobil House, P.O. Box 242, Accra, Telephone: (233-21) 664881-4, Fax: (233-21) 667909.

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If you know you are ready for this role, you need to convince us that you have both the skills and personal qualities to succeed. We want more details about you, such as a CV, but we also want you to persuade us that you are the right person for one of these roles. Please write to:
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Price Waterhouse, No.1 London Bridge, London SE1 9QL.
Fax: 0171 939 4707.

E-mail: Charles_Macleod@Europe.Notes.PW.Com

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This challenging position requires travel, regular contact with senior officers of Russian and CIS banks, preparation of high quality reports for publication, and the ability to meet tight deadlines. Candidates must be meticulous yet flexible and have at least five years' bank credit analysis experience.

Please send CV and covering letter by 26th July 1996 to:
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The successful candidate will manage and control the full credit cycle including credit policy, credit operations, authorisation and fraud control as well as MIS generation, in a business that today has an 18% market share, a staff complement of 200, and a presence in 10 Indian metros. The business is ISO9002 certified. The primary challenge is to direct portfolio growth in a manner that identifies and maximises revenue opportunity, with the balance of risk, and process control and management.

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This is a senior position in the Standard Chartered Group structure and a successful incumbent could expect in future, to take on responsibilities within the Asia Pacific region where the Group's principal strengths lie.

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ACLC extends small business loans in countries of Central Asia and seeks Accountant/Controller experienced in banking/financial institution record keeping. Incumbent will reside in Uzbekistan with substantial travel to other countries in the region.

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- Provide financial input and contribute to strategic decisions, business plans and budgets in the context of a rapidly changing legal market.

THE QUALIFICATIONS
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- Developing the IT function to deliver cost-effective solutions to the operating companies.

THE QUALIFICATIONS
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- Quick-witted, flexible and resourceful manager comfortable in dynamic, open and evolving management structures with first-class interpersonal, leadership and negotiation skills.
- Commercially focused and able to make a management contribution across the business. Sense of humour and the ability and desire to progress in the medium term, potentially into general management.

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Europe... Analysts

South East or North West England **Excellent Package**

Our client is the European division of a global consumer products company whose expansion in recent years has been outstanding. Annual sales, world-wide, are now in the region of $14 billion. The potential for further growth, both domestically and throughout the world, has never been greater.

Against this background, the company is looking to recruit a number of top quality Business Analysts to join the European business finance team.

The task is to provide business unit managers with sound commercial analysis of existing operations, to evaluate new business opportunities and to contribute to the development and implementation of future business and financial strategies across Europe.

Probably in your late 20's, you will be a graduate qualified accountant or an MBA and will already have had several years' experience within the corporate planning or finance function of an international manufacturing business.

A good communicator, orally and in writing, you will have proven analytical and financial skills, combined with the self-confidence and maturity to operate effectively at all levels of the organisation. Experience of working in a continental European location would be a distinct advantage as would the ability to speak more than one European language. Fluency in English is essential.

This is an excellent career opportunity for high-potential individuals and it offers a remuneration package to be expected of a major multinational business.

Please reply in confidence, enclosing a full curriculum vitae, current salary details and quoting reference B1984, to:

Alexander Hughes Selection
58 St. James's Street, London SW1A 1LD

ALEXANDER HUGHES SELECTION
A Company Member of the CPM Search International Network

COMPTABLE! CONTABILE! BUCHHALTER!

North West or Nottingham Based **c£30,000 + Car + Benefits**

We are sourcing high calibre linguists for our client who is a fast moving, market leading, blue chip organisation. With up to three years post qualification experience, you will be a chartered accountant with a strong academic record and natural linguistic flair.

The role incorporates an interesting variety of tasks:

- Project work.
- Secondments.
- Operational review.
- Special investigations.

A line role within a maximum of two years is guaranteed, either UK based or overseas. Although relocation is not necessary, you will be required to be mobile within the job, as you will be working within an operational trouble-shooting facility. You must be an innovative and confident individual and be seeking a challenging first move from practice.

If you feel you have the qualities required, please telephone Lucy Blakemore or Anita Allison on 0161-831 7127. Alternatively, send your CV to them at the address below.

FMS, Amethyst House
28 Spring Gardens, Manchester M2 1EA
Tel: 0161-831 7127 Fax: 0161-832 9123
EMail: fmsm@psd.co.uk
We have offices in London, Birmingham and Manchester

fms

INVESTOR IN PEOPLE

THE PSD GROUP

LEADING UK RETAIL GROUP

EXCITING DEVELOPMENTS IN EASTERN EUROPE

This c.£3bn turnover, household name retail organisation is planning significant expansion of its existing business in Eastern Europe, through both managed stores and franchises. These two key appointments are designed to ensure that commercial opportunities are exploited to the full and controlled through strong local and international reporting systems.

FINANCE DIRECTOR
to £80,000
+ executive benefits + bonus

This is a critical, high-profile role. To maximise your contribution in this position, you should be able to offer:

- an exceptional record of commercial success at strategic level
- a broad capability in finance, IT, asset management and fiscal/legal issues
- a determined, assertive, influential personality

International experience of complex multi-site operations, possibly including retailing, franchising and consumer brands, would be of particular interest. You will work from a UK base with extensive overseas travel. Ref: 889

FINANCIAL CONTROLLER
to £40,000
+ expatriate benefits + bonus

The accent here is on safeguarding the company's assets while achieving the highest standards of information integrity. You will be skilled in developing and managing:

- robust, responsive reporting and control systems
- dual currency accounting systems
- committed, competent support teams

You will be confident and adaptable, enjoy the challenge of an unfamiliar culture and thrive in a fast-moving, customer-focused environment. You will be based overseas on a full expatriate package. Slavic or other foreign language is a plus. Ref: 890

The company offers outstanding prospects for further career growth across a number of diverse business divisions, management disciplines and international locations.

Please send your CV, including latest salary, to Dudley Harrop at Ashley Search & Selection, quoting the relevant ref. no.

Ashley
SEARCH & SELECTION
THE GRAFTONS, STAMFORD NEW ROAD, ALTRINCHAM, CHESHIRE WA14 1DQ

JAWABY OIL SERVICE

CHIEF ACCOUNTANT

LONDON **£60 - 70,000 + EXECUTIVE BENEFITS**

Established in 1983, we are a leading service company within the oil industry. Our main activity is the procurement of goods and services for the Libyan oil sector, totalling about £400 million per annum. Subsidiary activities include the recruitment of personnel for employment in Libya, and sourcing educational programmes for the training of Libyan staff in the UK and elsewhere.

We wish to appoint a Chief Accountant, to replace the present incumbent who is retiring.

You will have a financial and accounting background with at least five years' management experience, and will have worked in the oil and gas industry preferably in Africa or the Middle East. Experience of dealing with the Arab business world is essential. The position reports directly to the Chief Executive in London, and will have responsibility for an accounting/treasury function of some 40 people. The role will include active management of accounting procedures and controls, treasury activities and IT systems. There is extensive liaison with client companies in Libya and also related group companies in the UK, Cyprus and Canada, engaged in oil and gas project management, and applicants must be willing to travel when required.

The role thus calls for a mature individual who is able to combine diplomacy needed in client liaison with a pragmatic approach to problem solving. Our preferred age range is 40-50.

Please send full career details, including current remuneration and daytime telephone number to Gerald John, Head of Recruitment and Personnel, Jawaby Oil Service, 15-17 Lodge Road, London NW8 7JA.

JAWABY OIL SERVICE

FINANCIAL CONTROLLER

OUTSTANDING OPPORTUNITY FOR BUSINESS FOCUSED ACCOUNTANT

CUMBRIA/LAKE DISTRICT **c.£60,000 + BONUS + BENEFITS**

- UAP Provincial Insurance is part of a publicly quoted Group comprising leading Life and General Insurance companies in the UK and Republic of Ireland. Following its recent UK flotation it is set to play a key role in its parent group's plans for further expansion. With a turnover in excess of £400m, its strong profit performance reflects a focus on quality and customer service, and continuing investment in leading edge technology.
- Reporting to the Finance Director and with strong links into the business, your brief is to ensure the function is seen to add value and contribute to overall business performance.
- Wide ranging and challenging role covering planning and performance analysis, statutory accounting, financial control, cash management and treasury.
- Probably in your thirties, a bright, graduate calibre qualified accountant, with strong financial and management accounting experience gained within a progressive blue chip company. Good intellect with rounded business awareness and a record of enhancing business performance and efficiency.
- Previous service sector experience is not a prerequisite, but must be commercially orientated with strong analytical skills, gained in an operational environment with a rigorous approach to quality.
- Ambitious, focused and energetic, with a proactive, robust but diplomatic approach; must promote high standards and set stretching objectives. Good presence, a team player who is credible at all levels within an organisation, seeking a stimulating environment in which to develop.

Please apply in writing quoting reference 1097 with full career and salary details to: Susan Ryder, Whitehead Selection Limited, 11 Hill Street, London W1X 8AB. Tel: 0171 290 2043. http://www.gisnet.co.uk/whitehead

Whitehead
SELECTION
A Whitehead Mann Group PLC company

CORPORATE FINANCE DIRECTOR - FOODS

Excellent Tax Free Package **Middle East**

The Company

Already one of the most successful, fast growing Food Groups in the Middles East, our client has a wide portfolio of businesses principally in the Middle East, Africa and Europe, they are destined to become one of the worlds major producers of food products by the year 2000.

The Position

- A high profile role directing and managing group finances.
- Developing and implementing financial strategy.
- Actively supporting international growth through the existing business, new ventures and acquisitions.
- Reviewing developing and implementing a financial management structure to underpin this growth whilst maintaining tight financial controls.
- As a key member of the mangement team be expected to provide a high level of support to fellow board members.

The Person

- Professionally qualified with 10 years experience in major international FMCG manufacturing, preferably in the food sector.
- First-hand experience of overseas operations preferably including some time in the Middle East.
- Experience of acquisitions and the monitoring of satellite operations.
- Able to manage change with confidence.
- Qualities - Innovative, resilient, persuasive, tenacious, having outstanding communications skills and a high degree of computer literacy.

Please send a full c.v. quoting reference FD007236 to: Group Personnel Director, C/o Trulink Appointments, Willow House, PO Box 422, Chalfont - St. - Giles, Bucks. HP8 4AT Fax +44 (0) 1753 553455.

CONTROLLER - GROUP ACCOUNTING

LOGISTICS
ATTRACTIVE PACKAGE + CAR **NORTH WEST**

This European group of businesses, with a turnover in excess of £500m is a market leader in logistics solutions. The profitable group is achieving growth organically and through selective acquisition.

Heading up the Group Accounting Centre, and reporting to the Group Financial Controller, you will be managing a team of 30 people and carry full day to day financial management responsibility for the running of the centre. The business units currently administered have a turnover in excess of £250m. You will be expected to bring a fresh commercial outlook to improving the service to business users and increasing efficiency.

A Chartered Accountant with good man management experience and a detailed awareness of computer systems, you must have excellent communication skills and the ability to implement change. The successful candidate will have no less than five years post qualification experience. This exciting opportunity offers realistic career progression for the right individual.

Please send a CV to Howgate Sable & Partners, Arkwright House, Parsonage Gardens, Manchester M3 2LF. Tel: 0161-839 2000, Fax: 0161-839 0054, quoting ref: FT234W.

Howgate Sable
& PARTNERS
EXECUTIVE SEARCH AND SELECTION
London · Manchester · Leeds · Newcastle

QUAKER

FINANCE & OPERATIONS CONTROLLER

Holland *Excellent package*

Quaker Oats is a large multi-national US corporation with worldwide sales exceeding $6 billion in 1995. Quaker is a key player in the European cereals market and products include Cruesli, Sugar Puffs, Harvest Crunch, Quaker Oats, Crakes and Solgryn. The Financial Controller for Holland reports into the Plant Operations Manager with a secondary report into the European Controller in the UK, and has a very high profile in the business. Due to extensive restructuring across Europe the need has arisen to recruit a highly capable individual to act in a financial and management capacity to add value to this growing business.

Key Responsibilities:-

- Full autonomous control and management of the finance function in Holland.
- Budgets, forecasts and variance analyses.
- Enhance the plant's success through contribution to improvement programmes.
- Provision of management information and implementation of cost improvements.
- A key member of the Plant Management team supporting the business process.

Key Requirements:-

- An understanding of manufacturing operations and supply chain principles.
- Excellent analytical skills and an ability to contribute to the 'total' business.
- Strong managerial, organisational and administrative skills with an ability to manage teams.
- Good presentation skills and service and quality orientated.
- Qualified accountant, fluent in Dutch and English.

Suitable candidates will have at least three years experience within a manufacturing environment and an excellent understanding of standard costing, controls and financial/management accounting. The role also requires a good knowledge of systems. Prospects are excellent for candidates keen to progress.

Please send your CV to Josephine Bannon, Morgan McKinley Associates, Ruskin House, 40/41 Museum Street, London WC1A 1LT. Tel: +44 (171) 404 4100. Fax: +44 (171) 404 4334.

FINANCE DIRECTOR

BOTSWANA
c£60,000 PACKAGE

An exciting and challenging new role has been created in one of the most beautiful countries in Southern Africa.

Working for one of Botswana's brand leading food manufacturers the Finance Director will have total responsibility for the financial affairs of a highly profitable US $44 million Group.

Operating companies activities include:

- the manufacture and sale of wheat flour, pasta and biscuits
- the packaging of grain products
- the pre-packaging of salt, rice and beans
- the manufacture of a range of bakery products
- the manufacture of woven polypropylene

Applications are sought from UK Qualified Accountants, with appropriate experience, interested in a two year, renewable contract, based in Ramotswa, a short distance from Gaborone the capital of Botswana.

An attractive expatriate package will include:

- full relocation costs
- full housing allowance
- 25% bonus on completion of contract (tax free)
- annual salary review
- schooling for children, locally or internationally, up to age of 18 years
- fully expensed car and assistance in purchase of car for spouse

To obtain details of this exciting opportunity then please contact Roger D Tipple on 0171 831 8383 (Fax: 0171 831 9571). Or write to him, in confidence, enclosing a full c.v. at CEDAR International, 15 Bloomsbury Square, London WC1A 2LJ.

CEDAR
INTERNATIONAL
CORPORATE · EXECUTIVE · RECRUITMENT · AND · SEARCHING · PLC

INTERNAL AUDIT MANAGER

Circa £40,000 plus Benefits

Perpetual, based in Henley, is one of the UK's most respected investment management groups. As part of our commitment to setting and achieving high standards within the fund management industry, we wish to augment our Technical Department.

The main purpose of the role will be to review the departmental working practices of the Group, including its complex automated systems, from an operation and financial perspective. Also to assess the adequacy of the control environment within the Group and monitor that controls are sufficient to ensure compliance within IMRO and PIA regulatory environments.

The individual we are seeking will be given every opportunity to exhibit their technical and personal skills in a high profile department within a market leading fund management group. They will liaise closely with the Managers in the department, report to the Technical Director and build a team of three staff.

If you believe you have the necessary skills to make a positive impact within this highly professional and personal environment please send your curriculum vitae, quoting Ref: FIMGH, to:

SAMMONS ASSOCIATES
Executive Search & Selection
Poupart House, 46 Fish Street Hill,
London EC3R 6BR
Tel: 0171 293 7040
Fax: 0171 623 6011

Perpetual

APPOINTMENTS WANTED

SWITZERLAND

professional with many years varied world leaders experience (banking, service & airline industries), Swiss & Brit, seeking German & French. Currently travelling 75% for a global company & 25% base work from his own office in Zurich desires a more challenging number, or a permanent/contract role.

Write to Box [illegible], Financial Times, One Southwark Bridge, London SE1 9HL.

APPOINTMENTS ADVERTISING

appears in the UK edition every Wednesday & Thursday and in the International edition every Friday.

For further information please contact:
Toby Finden-Crofts
+44 0171 873 3456

AMSTERDAM-THE NETHERLANDS
EUROPEAN MANAGER FINANCIAL SYSTEMS IMPLEMENTATION

Our client is the European Head Office of a US multinational, one of the major players in the *logistics service industry*, with operations in the United States, Canada, Mexico and throughout Europe.

As a result of strong expansioo in the European operations, they have an immediate need for a high calibre European *Manager Financial Systems Implementation* for the centralised European Finance department. Reporting directly to the European Financial Director, this position offers a high degree of responsibility and exposure to executive management. Career development opportunities are excellent.

The main responsibilities will be:

- management of highly skilled and motivated team
- planning, project management
- European coordination and strategic management of the Financial systems development
- continuous optimization of procedures, business process improvement
- ongoing liaison role with the user Community
- development of automation to streamline the accounting closing process

The successful caodidate will need to be a qualified accountant (RA/CPA/ACA) with *at least five years relevant experience working for* one of the 'Big Six' and/or a multinational. There is a strong preference for candidates with a strong financial systems background in a client-server environmeot with US GAAP knowledge. This individual must have strong analytical and communication skills in addition to proven management qualities and a drive for results. You must be able to work under pressure, to tight deadlines in order to gain the respect and confidence of senior management. The business language is English, but a second European language is desirable. *Furthermore he/she* should be prepared to travel internationally.

To express your interest in these opportunities, please send, fax or E-mail your *updated curriculum vitae to:* **Elisabeth M.M. Huigen, Robert Walters Associates, 'Rivierstaete', Amsteldijk 166, 1079 LH Amsterdam, The Netherlands. Tel: 00-31-20-644 4655, E-mail: elisabeth.huigen@robertwalters.com or Fax: 00-31-20-642 9005.**

ROBERT WALTERS ASSOCIATES

LONDON WINDSOR NEW YORK AMSTERDAM BRUSSELS SYDNEY WELLINGTON

PANTHEON

Group Operations Executive

WEST END C.£45K PLUS ATTRACTIVE PACKAGE

Our client, Pantheon Holdings, is a highly dynamic independent investment management group, specialising in investing in private equity funds worldwide. With offices in London, San Francisco and Hong Kong, they currently have over $1 billion under advice and management.

Due to continuing success, the company requires a proactive and commercially aware Group Operations Executive. Reporting directly to the Group Finance Director, your prime responsibility will be to review and develop business systems and practices across the Group. As a key member of the head office team, you will be expected to make a significant contribution to the overall development of the business.

It is essential that you are computer literate and have "hands on" experience of back-office operations. Demonstrable success of designing and implementing business systems, ideally within a service orientated niche organisation, is required. The ability to assimilate key information quickly and communicate fluently, both orally and in writing is also important as are excellent interpersonal skills and the capacity to operate effectively within a small international team.

If you are a self motivated and enthusiastic individual and can rise to the challenges of this exciting environment, then please write enclosing full personal and career details to: Suzanne Dobinson, Management Consultancy Division, Robson Rhodes, 186 City Road, London EC1V 2NU.

ROBSON RHODES Chartered Accountants RSM International

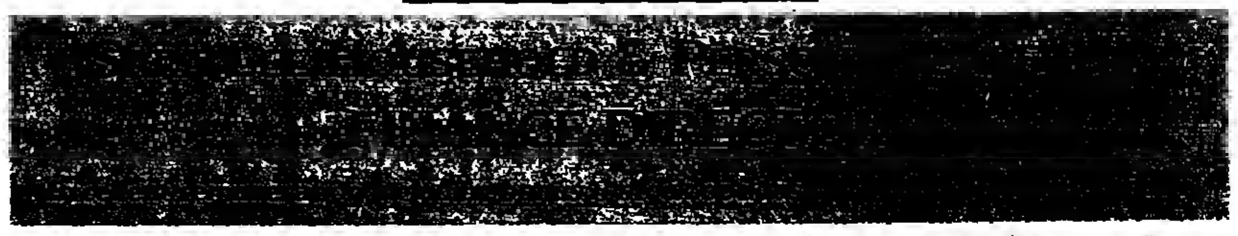
APPOINTMENTS ADVERTISING

appears in the UK edition every Wednesday & Thursday and in the International edition every Friday.

For further information please contact:

Toby Finden-Crofts

+44 0171 873 3456



Sara Lee Household & Personal Care UK, part of the Sara Lee Corporation of the USA which has global sales of $18 billion, is a market leader in its sector with sales approaching £100 million in its UK and export markets. The company manufactures and markets a prestigious product range which includes Badedas, Brylcreem, Radox, Showerfresh, Kiwi and Vapona. An exceptional Finance Director is now sought to join the UK management team. Opportunities for career development, whether in the UK or elsewhere, with this first-class, strong growth company are excellent.

The Position

- Report to the Managing Director with strong functional dotted line to the divisional headquarters in Utrecht and liaison with other Sara Lee UK Finance Directors.
- Responsible for the financial function and for the information technology/business systems group.
- Produce the company's annual and long range operating plans.
- Contribute to overall business policy formulation, strategy and operating decisions as a member of the Executive Committee.

The Requirements

- Must have a relevant accountancy qualification and preferably a university degree.
- Demonstrable track record of senior level financial planning and control in FMCG sectors and manufacturing environments.
- IT literate.
- Strong team player with an outgoing personality.
- Language skills (e.g. second European language) would be an advantage.

Please send your CV with current salary details to: Geoffrey Mather, K/F Associates, 252 Regent Street, London W1R 6HL **quoting ref: 10186/B.** Alternatively send by fax on 0171 312 0020 or e-mail to cv@kfaeurope.com

Internet Home Page: http://www.kfaeurope.com/kfaeurope/

K/F ASSOCIATES

KORN/FERRY CARRE/ORBAN INTERNATIONAL

Price Waterhouse

EXECUTIVE SEARCH & SELECTION

Internal Auditor with personality

Mission Impossible?

c. £40,000 + outstanding benefits **Central London**

We have been told that it's a bit of a contradiction in terms: they keep telling us that we can have one or the other, but oot both; that audit training is best done at Clapham Junction; that an auditor's preferred dress includes something rather sensible and waterproof...

We don't believe them. We know you're out there somewhere. Prove us right.

Those of you who are happiest with your nose buried in a technical manual will not, on this occasion, find your way onto our shortlist. If, on the other hand, you are a charismatic and people-oriented audit manager who knows how to achieve positive change, we should talk.

You don't perhaps see Audit as a career for life, yet you certainly do see its immense value as a business tool - and have a talent for demonstrating and communicating that conviction to staff at every conceivable level.

So consider this rare challenge, which requires you to raise the profile and revitalise the fortunes of a strong but misunderstood audit department - by re-educating and redirecting those within and without it. Specifically, you will need to identify new internal controls, train and develop your own team, and prepare and achieve your annual plans.

An inspiring and business-oriented professional, you must have a solid audit background - ideally gained within financial services, but not within a ơghtly regimented environment. As well as an accountancy qualification and some systems experience, you would benefit from some consultancy exposure and a first-hand knowledge of implementing change. Above all, you are happy to stand (and rise) by your convictions - without constantly resorting to any manual.

In return we offer the opportunity to run your own show at the heart of a company that believes in itself and its future direction; one that is committed *absolutely* to its clients, but recognises also that our staff are our lifeblood, and encourages teamwork with an open, participative management style.

If you feel that you can match our expectations and put the anorak cliche to the sword, write to our advising consultant, David Hunter, quoting reference L/1664, at the address below.

Executive Search & Selection,
Price Waterhouse,
No 1 Londoo Bridge,
London SE1 9QL.
Fax: 0171 403 5265.
E-mail: David_Hunter@Europe.notes.pw.com.

Manufacturing Finance

Global role – European base

c£80,000 + Benefits

This is an exceptional worldwide role based in Switzerland for a Finance Manager with substantial manufacturing cost control and analytical knowledge gained in an fmcg or process industry environment.

The person appointed will head a small team and will be responsible for providing financial support and guidance to manufacturing management on a global basis; developing new management tools to monitor production costs and to fundamentally re-appraise the cost base; providing financial information and guidance to the group optimising global manufacturing strategy; developing the concept of activity based management and activity based costing; and providing technical support and training to the controllers at manufacturing plants.

Candidates must be University Graduates with a recognised costing qualification and the stature to operate across the upper echelons of a major multi-national. At least 10 years post qualification experience gained in the manufacturing arm of a relevant multi-national, including the manufacturing plant controller role are essential. The ability to speak a second European language, preferably German, and experience of operating in more than one country are also needed. Salary will not be a limiting factor for the right candidate.

Age guideline 40-45.

Please reply in confidence quoting ref: L613 to:

Brian Mason
Mason & Nurse Associates
1 Lancaster Place, Strand
London WC2E 7EB.
Tel: 0171-240 7805.

Mason & Nurse
Selection and Search

FT

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The FT can help you reach additional business readers in France. Our link with the French business newspaper, Les Echos, gives you a unique recruitment advertising opportunity to capitalise on the FT's European readership and to further target the French business world.

For information on rates and further details please telephone:

Toby Finden-Crofts
on +44 171 873 3456

Support Manager

Central London **c £35,000 + Car + Benefits**

Our client is a major force in the global market for the provision of accounting services and management consultancy. The continued success of their consultancy operation is only possible because of constant development and improvement of internal financial reporting and the co-ordination of support services within the business. This role plays an essential part in this process.

Key responsibilities of this role:

- Provision of management information eg. complex resource planning, utilisation and forward revenue forecasting against budget.
- Assisting consultants in accurate and timely assignment planning.
- Liaison with the finance department in reference to billing, cash collection, consultants time-sheets and expenses.
- Presentation of analyses with commentaries to senior consultants and partners.
- Managing support staff including development and the appraisal process.

The successful candidate:

- Educated to degree level and likely to be over 30 years old.
- At least part qualified in any recognised accountancy qualification, the preferred candidate will have a good understanding of service culture.
- A proven ability to interpret management information and highlight priority actions will be paramount.
- Strong communication skills, tact and persistence will prove key personality traits in this demanding role.
- A familiarity with various PC systems and excellent PC skills are essential.

Interested applicants should apply in writing to Guy Stacey at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH, quoting reference 29994.

MP

Michael Page Finance
Specialists in Financial Recruitment
London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
Maidenhead Manchester Nottingham St Albans & Worldwide